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FT NEWSPAPER
of THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper

Trans-Alpine rail tunnel plan gets Swiss backing

Swiss voters endorsed a plan for modernising trans-Alpine transport by a surprisingly large 63.5 per cent majority in a national referendum. The SFr14.5bn (\$11.4bn) scheme to build two rail tunnels totalling 50 miles, running south towards the Italian border, could be the forerunner of a trans-European trend to transfer large amounts of freight traffic from the roads to the railways.

Page 16

Nigerian air crash kills 163: A Nigerian Air Force C-130 Hercules transport aircraft crashed after take-off from Lagos, killing all 163 people on board. Most were thought to be military officers attending the Command and Staff College in northern Kaduna State. Page 7

World airlines are expected to set up a task force under the auspices of the International Air Transport Association to develop international accounting guidelines after a survey revealed wide disparities in accounting policies and financial disclosures of airlines. Page 16

Labour spokesman quits: Bryan Gould, heritage spokesman for the UK's opposition Labour party, resigned from the shadow cabinet over the party's pro-Maastricht policy. Page 16

Virgin Atlantic Airways founder Richard Branson may help to rescue Dan-Air, the UK-based airline which was saved from collapse less than a year ago. Page 17

Maxwell businesses: Sales of most of the remaining businesses controlled by the late Mr Robert Maxwell, including Macmillan and Official Airlines Guide in the US, are moving towards final preparation. Page 17

Romanian elections: Exit polls showed voters had resisted opposition calls to ditch old-guard communist leaders, leaving President Ion Iliescu well ahead in the presidential contest but short of an overall majority needed to win outright.

European Monetary System: The peseta moved from the bottom of the European Monetary System's grid to the top last week after Spain protected its currency by imposing exchange controls. The peseta then returned to the bottom after Spanish share prices collapsed in the wake of the move. The central bank's determined defence of the French franc helped it join the ranks of the strongest currencies. The top four currencies are in a position to move quickly towards monetary union, while those below could adopt a slower timetable. Currencies, Page 27

EMI: Gru: September 25, 1992



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

EBCI 'bribes' probe: The UK's Serious Fraud Office and the US authorities are investigating allegations that at least two Bank of England officials took bribes from senior executives of the now-collapsed Bank of Credit and Commerce International during the 1980s. Page 8

Bosnia fighting intensifies: Rival sides in Bosnia's civil war reported heavy attacks on towns in the north and west of the former Yugoslav republic, indicating an intensified battle to gain territory before winter closes in. Cold winter looms. Page 4

Kenya: loans: Kenya said multilateral lending to the country, suspended for nearly a year, is expected to resume shortly, after its performance under a revised reform programme was broadly endorsed by the International Monetary Fund and the World Bank. Page 7

Spanish spending curbs: Spain's Socialist administration is preparing to mount its most determined effort in 10 years in government to curb public spending after approving a draconian 1993 budget. Page 3

Fresh floods sweep France: Fresh storms moved across southern France, leaving three people dead and several missing. Page 3

10 die in bus crash: Ten people died and nine were injured when a coach and a truck were involved in a head-on collision in central Spain. The bus, with 18 passengers, was en route from Tomelloso in the province of Ciudad Real, south of Madrid, to the eastern coastal city of Valencia.

Golfing first: Patty Sheehan of the US became the first player to win the US and British Women's Open in the same year at Woburn.

Formula One record: Nigel Mansell of the UK won the Portuguese Grand Prix and eclipsed the record of Ayrton Senna with his ninth Formula One victory in a single season. Senna set the record of eight wins in a single season in 1988, in winning his first of three world championships.

Pressure for modified Maastricht deal ■ Doubts remain about weaker currencies

Major faces split over Europe

By Philip Stephens,
Political Editor, in London

MR JOHN MAJOR, the UK prime minister, faced renewed divisions within his cabinet over European integration yesterday amid signs that the government's hopes of ratifying the Maastricht treaty now rest on an EC-wide agreement to devolve more authority from Brussels.

As the government struggled to re-establish a semblance of unity on its European policy, ministers said that a declaration underwriting the principle of "subsidiarity" could be signed at the Edinburgh summit in December.

The declaration, which would be attached to the Maastricht

agreement, would flesh out the treaty's brief reference to decentralising decision-making.

Mr Major, who will promote the idea at separate meetings on Wednesday with Mr François Mitterrand, the French president, and Mr Poul Schlüter, the Danish prime minister, hopes the commitment will reassure enough Tory wavering to allow him to press ahead with ratification.

The ministers predicted that EC leaders would be persuaded at next month's summit to give the British presidency a mandate to draft such a declaration.

But the scale of the prime minister's task in filling the policy vacuum left by sterling's enforced departure from the

VAT accord hopes.....Page 3

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Monday Interview: Patrick Minford

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exchange rate mechanism was underlined by yesterday's discordant chorus from ministers and senior Tory MPs.

Mr Michael Howard, the environment secretary, appeared to

accept that Britain's reluctance to say when sterling would return to the ERM could prompt an inner core of countries around Germany and France to establish a fast track to monetary union.

But, speaking on ITV's *Walden* programme, Mr Howard insisted that "British interests" would be paramount in deciding the government's stance.

His comments, along with a statement that sterling's re-entry to the ERM would be considered only after the mechanism had been reformed, jarred with enthusiastically pro-European statements by two other ministers.

Mr John Gummer, the agriculture secretary, told BBC radio: "There is no future for Britain in

some sideline. We are in the centre of Europe, and we intend to stay there." Disputing Mr Howard's comment that the suspension of ERM membership offered opportunities for Britain, Mr Gummer said the real issue was whether the government wanted to be buffered by the effect of strong economies and currencies with no say in the decisions shaping events.

But Sir Marcus Fox, chairman of the influential backbench committee of Conservative MPs, was among senior Tory MPs ready to cast doubt on support for Maastricht and the ERM. There were also calls from a number of MPs for the government to "get a grip" on its strategy.

EC finance chiefs aim to restore confidence in ERM

By Lionel Barber in Brussels

EC finance ministers hold talks in Brussels today aimed at restoring confidence in the exchange rate mechanism and repairing the damage caused by heavy speculation against weaker member currencies.

The meeting is expected to discuss the apparent success of the joint Franco-German intervention to preserve the parity of the franc, as well as the temporary exchange control measures introduced by Spain, Ireland and Portugal to prevent funds flowing into the D-Mark.

Although these measures restored a semblance of stability to the ERM, there are continuing doubts about the position of weaker currencies. These doubts have fuelled speculation in the money markets about a possible ERM realignment, or a joint Franco-German initiative to form a group of "hard-core" currencies to reduce the margins of fluctuation within the ERM.

In spite of official denials in Bonn and Paris that such an initiative is being contemplated, senior officials in both capitals have raised the prospect of a "two-speed" Europe if Britain delays ratification of the Maastricht treaty on political and monetary union.

Mr Bertie Ahern, Irish finance minister, made clear yesterday that Ireland was determined to stick with the hard-core bloc of France, Germany and the Benelux countries, even if it meant raising interest rates to defend the punt.

Mr Ahern told the Irish Sunday Independent that he opposed a two-speed Europe: "The idea of a fast and slow lane is not in anyone's interest."

Mr Norman Lamont, the UK chancellor of the exchequer and a strong defender of the decision to float the pound rather than raise interest rates within the ERM, will chair today's meeting.

The talks are billed as an important preparation for the

Continued on Page 16

S Africa's third man, Page 15

Buthelezi withdraws from talks on future of S Africa

By Patti Waldmeir in Durban

CHIEF Mangosuthu Buthelezi, leader of the Zulu Inkatha Freedom Party, yesterday withdrew his party from talks on a new South African constitution, throwing into doubt prospects for the early installation of a multi-racial interim government.

In a fiery speech at a rally in honour of Shaka, the 19th century militaristic Zulu king, Chief Buthelezi insisted Inkatha "will not be bound by decisions reached in bilateral negotiations between the government and the African National Congress".

Only hours earlier, Mr F.W. de Klerk, the South African president, and Mr Nelson Mandela, president of the African National Congress (ANC), had ended three months of bitter acrimony by committing themselves to putting an interim government in place as soon as possible.

At a peace summit held outside Johannesburg on Saturday, they agreed to resume constitutional negotiations suspended since June.

Chief Buthelezi said Inkatha and the KwaZulu government (which he heads) "are not marginalised", adding menacingly "and it's my sincere hope that we will not have to prove the reality

of the statement". Fighting between Inkatha and the ANC for political ascendancy in the townships has killed some 14,000 people since the mid-1980s.

He accused the ANC of indulging in Yugoslavia-type "ethnic cleansing" and "anti-Zulu racism" in seeking action against migrant worker hostels, frequent flashpoints in township wars.

The government and the ANC agreed at the weekend that some hostels would be fenced and patrolled by police, but the Zulu

leader said hostel inmates would tear down such fences "with their bare hands if needs be".

He rejected restrictions on the carrying of dangerous weapons, also agreed at the weekend, saying any attempt to impose them on the Zulus would lead to more violence. He threatened Inkatha would boycott any elections held in the present climate.

The Zulu leader's withdrawal damped the euphoria of Saturday's agreement at which Mr Mandela said he hoped would

send a "signal of hope" to South Africans.

"We have begun today to rescue our people from [the] chaos" of seemingly endless violence, he said. Mr de Klerk, too, pledged rapid progress toward a post-apartheid constitution, and underlined this by making big concessions on issues such as the

release of political prisoners, and on his demand for an amnesty for security force personnel.

As part of the deal, three ANC guerrillas convicted of terrorist crimes against white civilians are to be freed later today, along

Continued on Page 16

S Africa's third man, Page 15

Head office of Italian bank may have approved Iraq loans

By Alan Friedman in New York and Robert Graham in Rome

TWO FORMER executives of Italy's Banca Nazionale del Lavoro (BNL) have claimed that the bank's head office in Rome approved some of the more than \$5bn of illegal loans to Iraq made during the 1980s by the bank's Atlanta branch.

The disclosures contradict the central premise of the US government's fraud case against Mr Christopher Drogoul, the former Atlanta branch manager who was sent to prison this week by a US federal judge.

The Atlanta prosecutors, backed by the Bush administration, argued no one in Italy knew about the Atlanta operation and Mr Drogoul was the sole orchestrator of the loans, which helped to finance President Saddam Hussein's nuclear, chemical and missile projects.

Yet two former senior BNL executives have told the FT there were at least eight different mid-level and senior BNL colleagues in Italy who were involved in the Atlanta loans affair.

The former BNL executive, now in a senior position at another institution, said there were seven other current and former BNL executives "who know it is simply not true that Mr Drogoul acted alone".

court last week that the US Department of Justice had halted a visit to conduct interviews with BNL executives in Rome. Mr Wade said no US investigator in the case had travelled to Italy.

Both of the former BNL executives who gave the detailed briefings have asked that they should not be named. One executive said that between 1987 and 1989 he directed to Mr Drogoul in Atlanta over five Italian companies seeking BNL loans to back exports to Iraq. He said: "We knew there was an open line of credit to Iraq that was being run by our Atlanta branch. We were told that the highest levels of BNL wanted us to give privileged treatment to Iraq."

"Baghdad was an important client of the bank. When the exporters came to us in Italy we arranged for Atlanta to open and confirm letters of credit for exports to Iraq. Some of the loans were returned to Italy and approved and counter-signed."

The former BNL executive, now in a senior position at another institution, said there were seven other current and former BNL executives "who know it is simply not true that Mr Drogoul acted alone".

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NEWS: INTERNATIONAL

Amato stakes his future on budget

By Robert Graham in Rome

THE determination of the Amato government to introduce a tough austerity budget for 1993 will be tested this week as trade union protest gathers momentum and the political parties seek to impose amendments.

Mr Giuliano Amato, the Socialist prime minister, repeated over the weekend, in even stronger language than before, that he would resign if the budget was watered down.

But the trade union leadership, encouraged by last week's support for rolling regional four-hour general strikes to protest at proposed welfare cuts, looks set to call a nationwide stoppage early next month. This week there will be more regional general strikes, with the promise of other stoppages in specific sectors.

At the same time both the Christian Democrat and Socialist party bosses, central to the stability of the fragile four-party coalition government, are pledged to submit a long list of changes to soften the impact of the budget.

The 1993 outline budget proposes to raise L93,000bn (£74,630m) in new revenues and spending cuts. The protests focus on proposals to make the first real cuts in the system of public welfare established after the war. The government is proposing to cap pensions payments as part of a wider reform to extend the pensionable age to 65 and limit the level of state funding. A big shake-up of the health service is also on the books.

Mr Amato says the present welfare state - generous and inefficient - risks bankrupting the economy. Italy, he insists, must be seen tackling this problem if it is to regain international credibility.

In an interview in the daily *La Repubblica* yesterday, Prof Amato warned bluntly: "We are in an extremely difficult situation. The government has put before parliament measures it deems both adequate and indispensable. If parliament says they are not indispensable and cuts them back,



Amato: facing a tough test

it is clear at this point that neither the government nor parliament is capable of getting out of this storm. Thus it is useless to stay on because there is nothing left to do."

Last week Mr Amato said he intended to put the 1993 budget to a vote of confidence in parliament to speed the debate and concentrate politicians' minds on the disastrous state of Italy's public finances. Both the government and the Bank of Italy recognise approval of the budget is necessary before the lira can return to the European Monetary System, from which it withdrew 11 days ago.

The main pressure to water down the budget is coming from the unions, which claim the burden of sacrifice will be borne by those most vulnerable. But the scale of the pro-

Alleged offences committed under Common Agricultural Policy

Italy urged to probe beef 'fraud'

By Jimmy Burns

A ROW is developing within the EC over the apparent failure of Italy to pursue vigorously evidence of an alleged Common Agricultural Policy

seized a consignment of 150 tonnes of Irish beef. The beef, found in a warehouse in the port of Runcorn near Liverpool, was about to be sold within the UK at just below prevailing market prices, although it had been imported to Italy for processing and canning for delivery to the CIS at a heavily subsidised EC rate.

British customs investigators are understood to have told EC officials of their growing frustration with the apparent refusal of their Italian counterparts to move against a company engaged in a suspected fraud involving EC subsidised beef intended for the CIS.

The suspicions of EC investigators were aroused earlier this year when traders reported difficulty in selling beef in European markets because of competition from cut-price products.

In May, UK customs officers

"We believe there is enough to act on, and the Commission is of the same view," one customs official said. Italian officials are believed to have visited the company concerned but have so far refused to launch a formal investigation or make any arrests.

In recent weeks, UK customs has investigated a number of UK companies in connection with the sale of the beef, but have ruled out criminal action against any of them. Instead, they have passed on documentation and other evidence to EC inspectors and Italian officials, which in their view should have led to early action against at least one Italian company.

An EC report last month estimated that nearly 600 new cases, involving more than £100m (£171m) were uncovered by the 12 EC states last year. The problem is identified in a report sent to British members of parliament and tabled for a

House of Commons debate next month.

According to the Commission, the UK reported the largest number of cases - 131, worth over £2m, of which £2.5m has been recovered. The largest amount appeared to be in Italy, where £70m was recovered but only £4m recovered.

Ten days ago, Italy and France called for increased co-operation between EC members to fight organised crime in Europe under the banner of the Maastricht Treaty.

According to UK officials however, EC states disagree over how to translate this commitment into the arrest and conviction of suspected criminals, partly because of inconsistent judicial procedures.

Unions in protest to Brussels

By David Goodhart
Labour Editor

EUROPEAN trade unions have protested to the European Commission at the withdrawal of a grant to help unions organise meetings on European works councils.

Unions have received €100m (£18.75m) in the current year for organising such meetings, and had assumed that the payment would be repeated annually for several years. But the budget for 1993 drawn up by the Commission contains no provision for this.

Union leaders such as Mr Franz Steiniklher, leader of the German IG Metall union, fear this might represent a more general retreat from the social dimension of European integration.

The works councils, designed for informing and consulting workers on corporate strategy, have been established in about 20 EC-based multinationals and unions are pushing hard to set them up in many more.

In 1992 unions received about €50m from EC institutions or through the financing of union-friendly institutions.

German fire investigation continues

GERMAN police said yesterday a fire that on Friday gutted a building commemorating Jews who died at the Sachsenhausen death camp was started by a human hand, but could not say yet whether neo-Nazi arsonists were guilty, Reuter reports from Berlin.

However Mr Ignatz Babis, chairman of the Central Council of Jews in Germany, was certain neo-Nazi militants torched the barracks in Oranienburg, north of Berlin.

He demanded the barracks be restored and said any failure by politicians firmly to oppose neo-Nazi violence would encourage militants to step up their attacks.

"It is a disgrace for Germany that a memorial for murdered Jews is burned down," the Jewish leader said in Bonn.

There were no immediate statements from Bonn police on the incident.

Police said their investigation had established the fire was started by somebody either by accident or on purpose.

Final results would be released today.

Payment dispute over Danish terminal likely

By Paul Abrahams in Helsinki

FRAUGHT negotiations over financing for a new Dkr8.5bn (\$1.47bn) airport terminal at Copenhagen are expected to start in the next few days between Scandinavian Airlines System and Copenhagen Airports, the state-owned Danish airports authority.

Neither Copenhagen Airports, nor SAS, which wants exclusive use of the new terminal, appears willing to pay for the building. The terminal is planned to have a capacity of between 15m and 20m passengers a year. The airport, the main hub of SAS's traffic system, has an annual capacity of 15m but at present handles only 12m passengers a year.

Mr Peter Hoeland, managing director of SAS Denmark, said:

"We do not see ourselves as

airline investors. No airline, apart from Alitalia, is investing in airports. We expect the airports authority to do this."

SAS has recently presented Copenhagen Airports with its

plans for the highly sophisticated and automated terminal

which could make Copenhagen more attractive to transit passengers. SAS wants the airport to become northern Europe's main hub. It is at present Europe's 8th largest in terms of passengers.

Mr Neils Boeserup, chief executive of Copenhagen Airports, said: "Only SAS can justify an investment of Dkr8.5bn. The proposed terminal is so advanced, it's not a building, it's a machine. An airline might be able to afford it, but we can't." Copenhagen Airports made pre-tax profits of Dkr1.82m on turnover of Dkr1.2bn for the 15 months to December 31 1991. SAS reported pre-tax profits for the first six months of 1992 at Dkr502m on turnover of Dkr160m.

If financing can be agreed, the first part of SAS's terminal should be ready by July 1997, said Mr Hoeland. The airline expects passenger traffic to increase significantly with the entry of Sweden and Finland into the EC, and the completion of motorway and high-speed train networks in Scandinavia.

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The Future of Home Entertainment—Laser-Optical Format and Interactive Technology

The Explosive Growth in Home Entertainment Technology

New technology for home entertainment is advancing at a rate most of us can hardly fathom. From home audio visual (AV) systems to computers, a wave of new developments has appeared over the past decade, bringing vast improvements. But the speed of these developments has also created confusion in many people's minds during recent years.

Significant developments have taken place not only in terms of new functions on existing equipment, but also in the proliferation of new technology. We've seen the rise of the video cassette recorder (VCR), compact disc (CD), laser disc (LD), digital audio tape (DAT), mini disc (MD), digital compact cassette (DCC), CD-ROM, and CD-I, just to name a few, and who knows what may come next? This brings up all sorts of questions: Which of today's "state of the art" technology is most promising, and which will be tomorrow's version of the 8-track tape player? Which technology will be compatible with other technology? And there is finally the question of software. Will the best quality hardware necessarily have a full range of accessible software?

These are important questions. But for most people the questions don't stop at just trying to understand the technology. Consumers also need to differentiate between the makers of the different equipment, especially since many simultaneously develop competing technology.

Pioneer's Leadership in Laser-Optical Technology

With all the confusing and sometimes conflicting claims, Pioneer Electronic is one maker that is easy to differentiate. A leader in laser-optical technology, Pioneer is dedicated to this format. More than twenty years ago, before the first VCR was even on the market, Pioneer had



Pioneer's Recordable Videocassette Recorder VDR-V1000

already recognized the superiority of this format for AV home entertainment. And it has pursued this technology relentlessly. In 1980, it offered its first mass produced optical video disc player, which is commonly referred to as the laser disc (LD) player. And it has remained an innovator in the field.

Today, most people have some knowledge of laser-optical technology due to CD. But actually the first system to employ laser technology was LD. Although not as well known as CD, LD is rising in both popularity and stature, and in many respects holds the greatest potential for enhancing the quality and convenience of home entertainment. These systems work on the same principle: a laser beam reads and reproduces memory

signals from a disc. The advantages are significant: quick random access, consistently high reproduction quality, and excellent software durability. But the fundamental distinction between the two is LD's greater capacity; it produces high quality moving visuals in combination with the superior sound of CD.

Pioneer is one of only a few electronics

makers with a strong commitment to the laser-optical format. In 1984, it announced one of the most important developments in laser technology: the world's first compatible CD/LD player, a system capable of playing either CD or LD. The advantages have proven tremendous. By developing technology that was compatible with existing hardware and software, this system was easily adopted as the central unit in an integrated home AV system.

Pioneer has continued to make important advances in the field. Most importantly is the ability to write (record), something that has been done for years, but has only recently been available for laser. Pioneer was the first to accomplish this (1989), and today its recordable laser video disc system, VDR-V1000, will be available in Europe in the PAL format. Because this system incorporates separate optical heads for recording and erasing, these operations can be done simultaneously, providing average access time of only 0.3 seconds. And discs for this system allow over 1 million erase/record operations, and can hold as much as 32 minutes of visual motion while maintaining excellent sound and image quality. No other type of system approaches this level of performance.

Pioneer's commitment to laser technology is no arbitrary decision: the high potential of laser

perfectly matches its corporate philosophy. Above all else, Pioneer is interested in improving the quality and potential of home entertainment. And of all today's technology, laser is the ideal means of accomplishing this goal. Pioneer is unwilling to make any technology at the expense of losing any degree of sight and sound reproduction quality. Even if some new development seems to offer the promise of a minor new consumer benefit, Pioneer will not pursue it if it means making sacrifices in overall quality.

The Wave of the Future—Laser Disc and Interactive Technology

The future belongs to laser technology. Not only because of the superior sight and sound quality and greater convenience provided by its greater memory and access time. But also because of laser's promising future at the centre of integrated, fully compatible home entertainment systems. We are not far from a time when all facets of home entertainment, from AV to the computer, will be fully integrated. And an essential part of this system's foundation will be laser-optical technology.

The primary technology that will enable laser to move into this position is CD-ROM (Compact Disc Read Only Memory). One of the operations offered by CD-ROM is "Interactivity" between user and machine. This is referred to as CD-I (Compact Disc Interactive). Here, a single disc holds all necessary control programs, sound and image data to perform complex multimedia functions. With this kind of system, a person "interacts" with software, asking questions, playing computer-type games, working through a geography course, or even creating stories. And this technology holds even greater promise for the future. Once CD-I is capable of visual motion that meets high consumer standards, a viewer of a movie may be able to actively participate in story development and determine various endings. Among the many educational advantages that students can learn by trial and error. One such possibility exists in biology classes, where software programs can simulate a dissection.

Schools in Europe and the United States have launched Pioneer educational AV programs in their curriculums to help stimulate the imaginations of students.

Encouraged by the high potential of CD-I, Pioneer took this one step further with LD-ROM, which incorporates the best aspects of CD, LD and CD-ROM. This system is capable of simultaneously offering high quality sound, high quality long running visual motion, and interactive applications. Currently CD has only about 540Mb of digital signal memory to store both audio and visual information, while LD has 540Mb of digital signal memory, plus analogue storage space for up to 60 minutes of visual motion.

Just as Pioneer believes that LD has the greatest potential for revolutionizing general home entertainment, it feels that LD-ROM can offer a new, more sophisticated form of home entertainment. LD-ROM is the most promising future technology for providing an interactive multimedia world that is simultaneously educational, fun, and personally fulfilling. It is the most feasible way to combine high quality video images, CD sound, and system data information. And for the foreseeable future, this will remain the case.

Pioneer's Dedication to The Art of Entertainment

Pioneer is on the leading edge of improving home entertainment through the advancement of laser-optical technology. To explore this potential to the fullest, a company must do more than just build great hardware. It must also be intimately involved in the myriad applications of its hardware. And it must have a vision of how technology best suits the needs of the future.

A couple of years ago, Pioneer adopted a new brand slogan, "The Art of Entertainment". The philosophy behind this slogan is that state of the art technology needs to be directed at creating vivid, true-to-life experiences for all people. It means working towards a future in which technology will continue to play a fulfilling role for everyone in the world over.

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NEWS: INTERNATIONAL



Spanish cabinet concedes tough public spending curbs

By Peter Bruce in Madrid

SPAIN'S Socialist administration is preparing to mount its most determined effort in 10 years in government to curb public spending after approving a draconian 1993 budget at the weekend.

Caught in a fierce currency market attack on the peseta and waning popular support at home, and facing an election in, at most, 12 months, the cabinet has been forced to agree to demands by Mr Carlos Solchaga, the finance minister, that central government spending will increase only 3.7 per cent next year, a fall in real terms.

Prime Minister Felipe González has never before sanctioned such tough spending plans and has probe-

bly been persuaded to do so by the need to demonstrate to foreign exchange markets that Spain is serious about tackling its runaway deficits – so far this year the government has spent just short of double its 1992 budget – and to keep creditable Spain's insistence that it will be among the first countries to join a European Monetary Union.

The draft budget slashes defence spending by 9 per cent and forecasts growth next year of about 1 per cent. Civil service pay is to increase by less than the forecast inflation rate of 4.7 per cent.

Inflation this year, Mr Solchaga said in announcing the measures, would end at about 6.4 per cent.

The minister's budget will test the unity of the Socialist party, whose

polls show it is losing its parliamentary majority. Election campaigning has already begun, with both the Socialists and the leading regional parties in the Basque country and Catalonia – the government's most likely partners in any coalition – trying to distance themselves from one another.

A Catalan demand in particular – that Madrid hand over to the regional government nearly 20 per cent of tax revenues collected in the state – is threatening to poison the political atmosphere further.

In the meantime, the government is trying desperately to head off any possibility that France and Germany try to form a group of core EC countries to proceed with political and economic union without Spain.

Mr Solchaga will ask fellow EC finance ministers meeting in Brussels today to stick together and to agree on ways to end turbulence in the currency markets.

Spain has already devalued the peseta by 5 per cent in the past two weeks and is thought to be willing to participate in a further realignment of Exchange Rate Mechanism parties in order to avoid having to leave the ERM. Capital controls imposed by the Bank of Spain last week, to try to freeze speculation in the peseta, failed to lift the currency far off its ERM floor.

An agreement in Brussels this week, said Mr Solchaga at the weekend, "may or may not imply a realignment but we cannot go on like this and time is running out".



Optimism mounts over VAT accord

By Andrew Hill in Brussels

FRENCH and Spanish objections are still preventing adoption of a provisional accord on value-added tax and excise duties across the EC. But British and European officials in the Commission are optimistic a deal will be struck in the next few weeks.

Britain, which holds the EC presidency, had hoped the two countries would drop their reservations to the package by today's meeting of EC finance ministers.

To avoid rekindling the five-year political debate, the UK is aiming for technical agreement among national officials on outstanding points. The whole package of eight directives could then be rubber-stamped at any meeting of ministers.

A British diplomat said after last week's meeting of officials: "We're making progress, and the signs are quite good."

Finance ministers nearly reached unanimity on the package in July. It would impose, for example, a minimum binding standard VAT rate across the Community and lay out a framework for duties on tobacco, alcohol and mineral oils.

EC officials say formal adoption is essential to the single market. But they do not believe delays at this stage will hold up the opening of barriers, as Community VAT rates are in line with requirements of the package and a number of member states are preparing to introduce legislation based on the main points of the July agreement.

The principal stumbling blocks are still French calls for a nominal "control levy" on wine and Madrid's wish to bring the duty on British sherry into line with that imposed on the Spanish product. The Netherlands is also said to have voiced concern about VAT on the repair of shoes and clothes, but the Commission and presidency are not going to add new problems to the existing French and Spanish reservations.

Moscow faces policy attack from centrists

By John Lloyd in Moscow

THE Russian government has been served notice that it will face a concerted push to replace its policies, and probably most of its ministers, over the next two weeks.

Mr Artyom Volsky, head of the Union of Industrialists and Entrepreneurs and one of the most powerful figures in the centrist Civic Union bloc, said at the weekend that the government's programme was "advantageous only to the International Monetary Fund".

He said the Civic Union would in the next 10 days present a programme entitled Liberal Reforms and Strong Power, proposing administrative control of the market and the creation of a "Euro-Asiatic" union of six or seven of the members of the Commonwealth of Independent States.

The centrist's tactics, to propose a return both to a modified command economy and a scaled-down union, is a direct challenge to the government of Mr Yegor Gaidar, the acting prime minister, which came to power to institute rapid market reform in a Russia shorn of former union embargoes.

The publication of this new

Senate vote points to new cabinet

PARTIAL elections to the French Senate yesterday heralded a cabinet reshuffle, reports from Paris.

Mr Michel Charasse, Socialist budget minister, was elected in the first round of the poll for 103 senators, about a third of the house's 321 members. He recovers the seat he gave up when he joined the cabinet four years ago.

Mr Charasse, who is due to present the draft budget to the cabinet this week, must under French law choose between the Senate and the cabinet within a month of his election. "I have said I would choose my mandate as a senator," he said.

Another member of the Socialist-led cabinet, Mr Jean-Marie Rauch, junior trade minister, was also running for a nine-year term as a senator. Full results of the polls were due late last night.

Yesterday's poll set the scene for a tough contest for the coveted post of Senate speaker, which 83-year-old centrist Mr Alain Poher is to relinquish on Friday after 24 years in the job.

The Senate speaker takes over the presidency, should the head of state be unable to carry on for a two-month period until an election can be held.

Rivers swollen by torrential rains over-

French TV given highbrow touch

By Alice Rawsthorn in Paris

VIEWERS switching on to France's fifth television channel at 7pm this evening will see *Les Tambours d'Hiver* (*The Drums of Winter*), a documentary made two years ago on the musical rituals of the Inupiaq Indians, an obscure tribe in Alaska.

Les Tambours d'Hiver is not simply another documentary intended to add a sober touch to the soap operas and games shows that dominate French TV; it is also the first programme on Arts in its role as France's newest national television station.

Arts is an arts channel run by a Franco-German joint venture, which provides one service in French and another in German but saves money by pooling programme purchasing.

It will, or so the French government hopes, become a role model for a new breed of European cultural channels.

For the past few months

Arts' French service has been broadcast on the fledgling cable television network.

Today it moves to a new permanent slot on the fifth national channel, taking the place of *Le Cinq*, the main stream TV station which went bankrupt earlier this year.

Le Cinq enjoyed a brief burst

of intellectual credibility for its current affairs coverage during the Gulf war, but was best known in France for its soft-pornographic programming. Arts, by contrast, is unashamedly highbrow.

This evening's schedule is typical. *Les Tambours d'Hiver* is followed by a documentary on Egyptology and *Wings of Desire*, an art movie by the German director Wim Wenders.

A vintage episode of *Monty Python's Flying Circus*, the 1970s cult British comedy, is thrown in for light relief.

Arte is coming on air at a difficult time. There is already

fierce competition for viewers among France's existing national channels and from the dozens of stations on the struggling cable system. The competition proved too much for *Le Cinq*.

Meanwhile, Antenne 2 and FR2, the two state-controlled channels, are reorganising part of their operations in an attempt to resolve financial problems.

So far Arte's management seems unshaken. Mr Pierre Andre Boutang, head of the French service, claims his channel has one big advantage over its competitors in that "at last viewers will have the chance to see something intelligent at prime time".

The principal stumbling blocks are still French calls for a nominal "control levy" on wine and Madrid's wish to bring the duty on British sherry into line with that imposed on the Spanish product.

The Netherlands is also said to have voiced concern about VAT on the repair of shoes and clothes, but the Commission and presidency are not going to add new problems to the existing French and Spanish reservations.

FRESH storms moved across southern France yesterday, leaving three people dead and several missing, AP reports from Paris.

But the rains eased before reaching regions battered last week by the deadliest floods on record in France.

Authorities said the worst damage from the new storms occurred in the departments of Aude and Pyrenees-Orientales, close to the eastern part of the French-Spanish border.

Rivers swollen by torrential rains over-

flowed their banks. In the Aude village of Rennes-les-Bains the floodwaters smashed a home, killing a 65-year-old woman and sweeping away two other people.

Floodwaters a meter deep were reported in parts of the city of Narbonne.

The national weather service had warned that severe storms could hit much of south-east France yesterday, but in most areas rain was too light to unleash any new flooding.

Flash floods on Tuesday in the south-

central departments of Vaucluse, Drôme and Ardèche killed 38 people.

Vaucluse authorities yesterday lowered their estimate of missing people from 40 to 15, saying the others had been accounted for.

Officials said 150 homes in Vaucluse had been destroyed or seriously damaged, and 12 bridges washed away.

An overall valuation of the damage has not been released, but insurance companies have already arranged for payments totalling about FF 290m (211.23m).

Brussels puts squeeze on the Dutch cartels

Ronald van de Krol on changes in a business culture



THE WORD "cartel" usually conjures up images of furtive meetings in smoky back rooms, where deals and agreements are struck far from the authorities' prying eyes.

In the Netherlands, however, the focal point of cartel-fixers is not some secret rendezvous but the conference rooms, offices and corridors of the Ministry of Economic Affairs in The Hague. It is here that companies, business federations, agricultural product boards and retail associations have traditionally sent details of their cartels for inclusion in a register maintained by the ministry.

At least count the Netherlands had officially sanctioned more than 400 cartels. The exact details of the Dutch register are kept secret, but one ministry official says the sectors involved form a broad cross-section of the Dutch business community.

The cartels run the gamut from well-known agreements in the asphalt and construction industries to accords governing the production and sale of the lowly pearl onion. The agreements cover price levels, supply restrictions and product ranges.

Another favourite is the arrangement adopted by many retailers around the country: the by-laws of many shopping centres stipulate, for example, that the tenants may include only one shoe shop – to protect the livelihood of the sole purveyor of shoes in the complex.

However, the days of the Dutch cartel are clearly numbered. Under pressure from the increasingly active competition policy being pursued by the European Community, the Netherlands is preparing to start banning three types of cartel practices from 1993 – horizontal price-fixing, market share-out arrangements, and tender arrangements which

allow prior consultation among businesses vying for the same order.

"Traditional, defensive cartels will run into a red light," according to Ms Yvonne van Rooy, state secretary for economic affairs. "But the green light will continue to be given to positive and offensive cartels."

Beneficial cartels, she said last week in a speech to a forum of cartel policy, were ones designed to offer early, temporary protection to companies seeking to launch new technologies.

Surprisingly, perhaps, for a country which is a keen expo-

nent of European integration and harmonisation, Dutch cartel practice has always been fundamentally at odds with that the EC and most of its EC partners.

The Netherlands, with its traditional emphasis on achieving consensus and avoiding conflict, has fostered a business culture in which companies, trade unions, government bodies and industry associations engage in constant and close consultations. The country has no anti-trust authority, preferring instead to emphasize self-regulation whenever possible.

Indeed, the days of the Dutch cartel are clearly numbered.

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NEWS: INTERNATIONAL

Romanian ex-communist ahead of democratic opposition

Iliescu set for re-election

By Virginia Marsh and Anthony Robinson
In Bucharest

MR ION ILIESCU, the incumbent president of Romania, looked set for re-election last night as exit polls indicated a 48 per cent vote for the former high-ranking communist.

Mr Emil Constantinescu, his main rival, who represents Democratic Convention (DC), a loose alliance of 18 anti-communist opposition parties, polled 33 per cent, followed by Mr Gheorghe Funar, an anti-Hungarian nationalist, with 10 per cent.

If the exit polls are confirmed by the final results later this week, Mr Iliescu will face a second-round run-off for the presidency with Mr Constantinescu on October 11. This is according to Romanian electoral rules, which require an absolute majority of the country's 16m eligible voters for victory in the first round.

But the biggest uncertainty now hangs over the new parliament, where voters were faced with a choice among 81 political parties.

The exit polls showed that the Democratic National Salvation Front (DNSF), which supports Mr Iliescu, would emerge as the largest single parliamentary party with 27.5 per cent of the poll. But the DC, together with its ally, the ethnic Hungarian party, which won 7 per cent of the vote, would come out as the strongest single political group in both houses of the bicameral parliament with 30 per cent of the vote.

The exit poll, organised by Irsof, a Romanian company, in collaboration with Ifas of Germany, accurately forecast the results of Romania's first post-communist general elections in May 1990. Mr Iliescu then won 65 per cent of the popular vote in what was essentially a plebiscite celebrating the end of the tyrannical rule of Nicolae Ceausescu, who was executed with his wife Elena on Christmas Day 1989.

The absence of a clear majority in parliament indicates that a possibly long period of political horse-trading will now be needed before a new govern-



Romanian peasants sign up at a polling station before casting their votes in yesterday's parliamentary and presidential elections

ment emerges. It will replace the current caretaker government headed by Mr Theodor Stolojan, the non-partisan prime minister who has guided Romania through a difficult year of institutional and market reforms.

Mr Stolojan's market-ori-

ented reforms have won the support of the IMF, which plans to send a follow-up team to Bucharest once the new government is formed. The IMF has already agreed a new loan deal but will need to be assured that the new government is capable of fulfilling the terms.

The new government will also have to convince the European Community that Romania remains on track for signature of an EC association agreement on similar lines to those already agreed with Czechoslovakia, Hungary and Poland.

Yugoslav hyperinflation fear

By Laura Silber in Belgrade

DEEPENING economic turmoil in Yugoslavia could catapult the inflation rate to 21,000 per cent this year.

"If inflation is not stopped now, by January there will be a dizzying price rise and panic buying, Latin American-style," Mr Nebojsa Savic, a Belgrade University economics professor, told Politika, the main Serbian daily.

Belgrade economists say the economic situation will deteriorate sharply. The economy's downward spiral, precipitated by 16 months of war and the severing of economic ties with other former Yugoslav republics, was hastened by United Nations sanctions.

Economics professor Ljubomir Madjar yesterday said Yugoslavia - Serbia and Montenegro - "has entered the realm of hyperinflation". He believed huge state spending coupled with reduced revenues would push inflation even higher.

The truncated Yugoslavia is supporting a massive army and 485,000 refugees from

Bosnia and Croatia. Industrial production has fallen by 30 per cent. Since sanctions, including an oil embargo, were imposed on May 31, at least 300,000 workers have been sent on compulsory holidays. Belgrade economists estimate that only a quarter of the 2.2m workforce will be employed by the end of the year.

Amid deepening economic deprivation, Serbia's ruling Socialists appear determined to cling to power. The Serbian parliament last week voted to hold a referendum aimed at cancelling state-wide elections set for November. President Slobodan Milosevic is at loggerheads with Prime Minister Milan Panic, who has pledged to stop the war in Bosnia and democratise Serbia. Mr Milosevic is seen by the international community as the chief instigator of the war and mounting international outrage at Serbian "ethnic cleansing" in Bosnia appears to have hardened his resolve to remain in power.

Against this background of economic collapse and battles in neighbouring Bosnia, international mediators Cyrus Vance

and Lord Owen visit Belgrade today to discuss "ethnic cleansing" by Serb forces of Moslems in Bosnia and evidence of stepped-up air attacks.

After visiting Banja Luka, a Serb stronghold in northern Bosnia, on Friday, Lord Owen, the European Community envoy, said he and Mr Vance heard accounts of "systematic shelling" of 3,000 to 4,000 Moslem refugees who were driven from Banja Luka south-east to Travnik.

Fighting was reported throughout Bosnia yesterday. SRNA, the Bosnian Serb news agency, said Serbs were killed in three days of fighting against Muslim forces in Milici, north-east of Sarajevo. It also said Serb forces seized control of Tjentiste, south-east of Sarajevo.

• Reuter aids from Islamabad: Bosnian President Alija Izetbegovic arrived in Pakistan yesterday and called on the Moslem world to help his people.

Islamabad last month gave Bosnia a \$20m (£11.6m) credit line, a special grant of \$10m and humanitarian assistance worth \$400,000.

UN sanctions have hit clothing sector hard, writes Judy Dempsey

Cold winter looms for Serb textiles

M R Dragoslav Kojic

dreads the next few days. As manager of the Kluz textile factory in the south of Belgrade, he will have to tell his 3,000 employees that he is switching off the machines, turning off the lights, and closing the gates.

The United Nations sanctions imposed on Serbia in May have beaten him. "What can I do? I cannot export. I have no more stocks. I have run out of oil. I have no money to pay my staff," he says.

Kluz is just one of many textile factories in Serbia which have been forced to close or put their workers on half pay because of the sanctions. Indeed, the textile industry is probably the sector hit hardest by the UN's trade embargo.

This is because over the past two decades, the textile industry in Serbia had built up excellent contacts with German and Italian companies.

For instance, designers, such as Boss, sent patterns, colours, cloth, thread and buttons to Kluz. In return, thanks to cheap labour and a highly skilled work force, Kluz was exporting practically 100 per cent of its finished product to its European partners. "We relied totally on the export market. Now this is closed to us," said Mr Kojic.

Before the sanctions, Kluz was recording a monthly turnover of DM4m (£1.5m). It had paid off its debts of over DM100m, and was looking forward to expanding. The sanctions have put paid to that.

"I am in contact with my German partners almost every day. My greatest fear is that they might start looking for new partners if the sanctions last for a long time. It is going to be difficult to recoup these markets," says Mr Kojic.

Outside Belgrade, the Serbian capital, the picture is grim.

Mr Gradimir Cvetkovic, general secretary of the Textiles Association of Serbia, says the Serbian government is to set up a social fund for the sector's workers.

Mr Cvetkovic knows that as winter approaches, and inflation continues to soar, these benefits will not go far.

"The sector, which covers textiles, shoes and leather goods, employs 200,000 people, or about a quarter of the total labour force," he explains.

"It was also the most successful arm of the Serbian economy. Between 80 and 80 per cent of the industry's total turnover was earmarked for the export market. The sector accounts for 20 per cent of Serbia's total trade."

A bout 80 per cent of the textile industry's turnover is over exported to the EC, and the rest to the US, eastern Europe and the former Soviet Union. Last year, textile exports from Serbia totalled \$1.1bn (£643.2m) and imports \$600m.

Both Mr Kojic and Mr Cvetkovic are pinning their hopes on Prime Minister Milan Panic. Mr Cvetkovic says that if the sanctions are not lifted in a month, he will find it difficult to support Mr Panic. Mr Kojic is less optimistic: "The sanctions will not be lifted for some

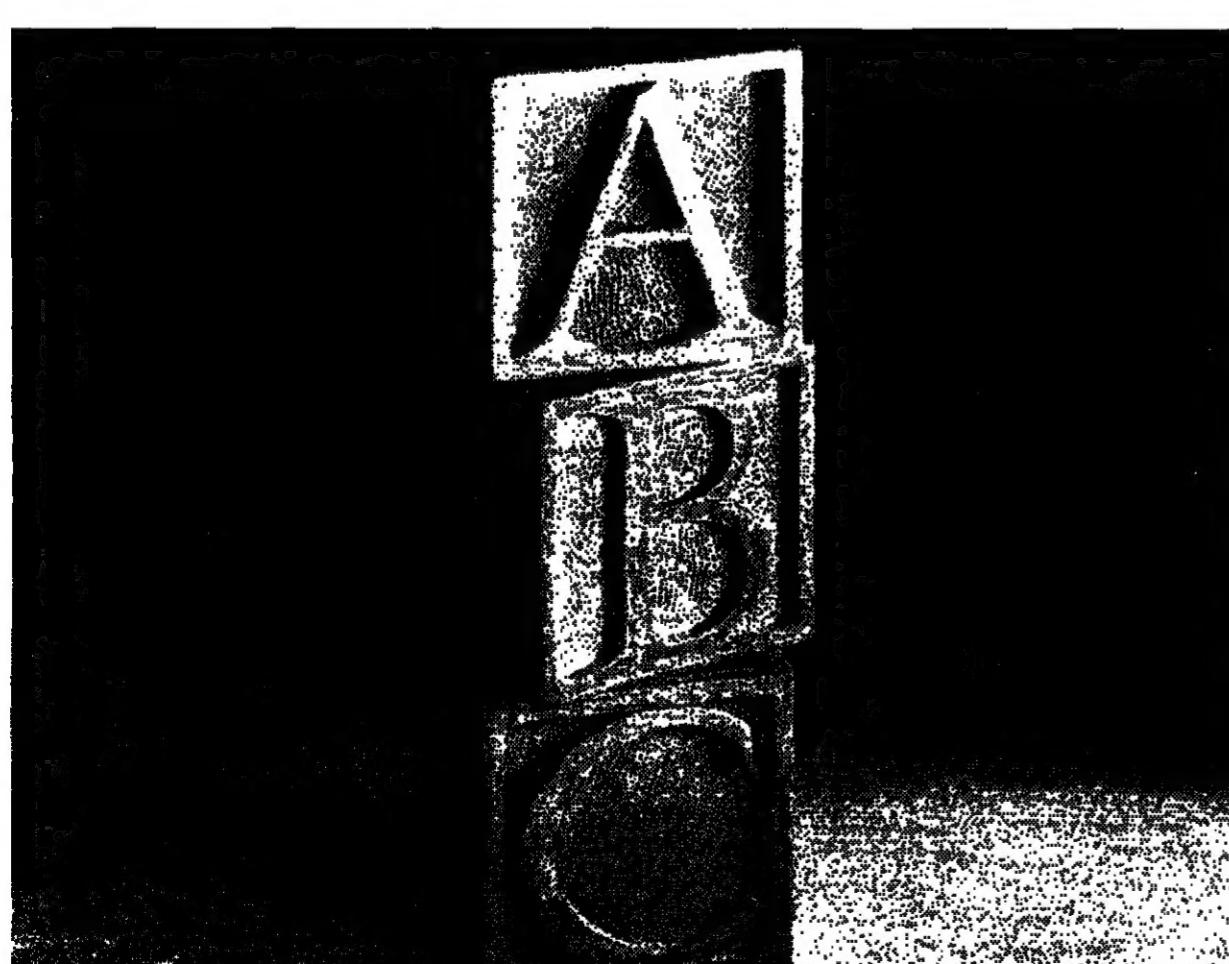
time. Everybody knows. We must rally around Panic. He is our only hope, especially for the business community here in Serbia. They identify with Panic because he is a businessman," he said.

But in Centrotex, the top-heavy foreign trade organisation which represents about 500 Serbian and Montenegrin enterprises, the mood is stubborn, if not defiant.

"I do not trust Panic to help us," says Mr Branislav Bacic, director of the shoes and sports department. "The main problem we face is oil. There's a little coming in from Greece. It is not enough. But I know the Serbs. We will sit this one out," he says.

But managers like Mr Kojic and Mr Cvetkovic are more realistic. "We have to change the mentality of the Serbs. For years they have been indoctrinated with communism, nonsense and incompetence. What this republic needs is managers and entrepreneurs, not bureaucrats," says Mr Kojic.

Yet that view offers little succour to his workers in Kluz. Already, Mr Kojic has closed down three other factories in Serbia. "I do not know what to tell them. The workers still trust me. But they have to face the prospects of no work, a cold winter, and little to hope for. The months ahead are not going to be easy for any of us."



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NEWS: INTERNATIONAL

Bush fails to Presidential punches miss the mark take brakes off campaign

By Jurek Martin, US Editor, in Washington

PRESIDENT George Bush's hopes of kicking his re-election campaign back into gear this weekend seem to have been frustrated on at least four counts, negating the impact of his whistle stop train swing through the important mid-western states of Ohio and Michigan.

Fresh accusations of his knowledge of the Iran-Contra affair have been made by a former White House aide, Mr Howard Teicher, who said he briefed the then vice president three times in the middle of 1986 about the "operational details" of the arms-for-hostages clandestine scheme.

Mr Bush has insisted he knew none of the details until December, and refused to answer all new questions over the weekend.

Second, attention has been diverted to Dallas and to today's national television, where Mr Ross Perot, the Texas billionaire, may announce whether he is entering the race. Signs from the Perot camp were hopelessly conflicting over the weekend, but delegations from both the Bush and Clinton campaigns are to address a meeting of his volunteers in Dallas.

Third, national and local public opinion polls continue to suggest that Governor Bill Clinton is consolidating his double digit lead. A Time-CNN survey at the weekend had him 12 points ahead, double the margin of earlier this month. Posturing a Perot candidacy still left the Democratic candidate 11 points up, while other recent polls also show Mr Perot's stature now much diminished.

An ABC survey found Mr Clinton ahead in 30 states, with 346 electoral college votes, and Mr Bush up in only 10, with 119 votes, with the balance undecided. A total of 270 votes is needed to win.

Finally, Mr Bush was possibly embarrassed by the resignation from his cabinet of Mr Edward Derwinski, the secretary for veterans' affairs. Mr Derwinski was unpopular with the Veterans of Foreign Wars, the ex-servicemen's association which had endorsed Mr Bush early in 1988 and which may have made the departure of the secretary contingent on backing this year.

It is not easy to see where it could come from. The economy cannot save him now, as every weekly, monthly, and quarterly number continues to demonstrate.

Hammering Governor Bill Clinton as the mad taxman of Arkansas, also inclined to let murderers out on the street before their time, is an exercise in statistical futility, rendered suspect by Mr Bush's own sanctioning of the second largest tax increase in US history.

Bashing his Democratic opponent for dodging the draft 22 years ago is not resonating and, even if the country cared, is neutralised by continuing allegations about what then Vice President Bush knew about the Iran-Contra scandals, about which it may care just as little. Trying to paint Mr Clinton as an Oxford-educated social engineer intent on recreating what had failed in Warsaw, Prague and Moscow does not stick in these post-cold war days.

Mr Bush may be seeking to shed the albatross of "family values" hung around his neck by the far right. But he could not last week stop television re-creating what had failed in Warsaw, Prague and Moscow.

He contrasted the fact that he had a plan, compiled with numbers from the Congressional Budget Office, whereas the president "just raises taxes on everybody."

There was no breakthrough on the stalemate over the presidential televised debates. The next one on the schedule, next Sunday in San Diego, now looks at severe risk. There is even speculation now that for the first time since 1972 there may be none at all.

Even the places where Mr Bush now chooses to campaign are themselves an indication of desperation. To be sure, Michigan and Ohio, his weekend targets, are competitive and

important states. But last week he was tied down in Mississippi and Oklahoma and tomorrow he will be in Texas, all of which would a few months ago have been automatically slotted on to his side of the political ledger and worthy of no more than nominal attention.

Nobody has the foggiest clue what Mr Ross Perot will finally do. But if the Texas billionaire damages anybody except certainly himself, by re-entering the race or by what he says, the suspicion is that it will be Mr Bush and in the states which he absolutely must win, like Texas and Florida, to retain the presidency.

Some serious pundits, reading off polling statistics from the Florida Keys to the Puget Sound, are beginning to talk of a Clinton landslide, comparable to President Lyndon Johnson's over Senator Barry Goldwater in 1964.

Even the places where Mr Bush now chooses to campaign are themselves an indication of desperation. To be sure, Michigan and Ohio, his weekend targets, are competitive and

so far behind so late in the campaign as Mr Bush now is and gone on to win.

Even personal experience, which should be inherently suspect, is becoming hard to ignore. Last Thursday, your correspondent and a German colleague went to Philadelphia to speak to a meeting of European chambers of commerce, not exactly a Democratic hotbed. On the train back to Washington that night, we compared notes and found that we had talked to only one person who proclaimed himself a staunch supporter of Bush.

So what does Mr Bush do to retain his crown? It is increasingly hard to believe that he cannot now agree to debate with Mr Clinton, if necessary on his opponent's terms, which happen to be those of the independent bipartisan commission in charge of presidential debates.

This means a single moderator, rather than a panel of inquisitive journalists. If there were two debates, both formats could be employed.

The Bush campaign could

also get more negative and seriously dirty. There has been a sharper edge to some "factual" commercials, mostly about the state of Arkansas, now flooding the air waves. The president, or more likely a surrogate, may go so far as to accuse Mr Clinton of physical cowardice or to reveal something or somebody more plausible than Jennifer Flowers on the sex front. It is getting a little late to produce it and it will be harder still to make it stick.

An October "surprise" cannot be ruled out, though what it might now be is anybody's guess. There may be some mileage in a Middle East peace agreement before November 3, but the Arab vote is small and the Jewish vote inclined to return to its Democratic base. Iraq's President Saddam Hussein has virtually disappeared from the public consciousness.

Or Mr Bush could simply wing away at what he is doing now, in the hope that what he is saying about the contrast between his anti-government philosophies and Mr Clinton's

belief in state power will eventually take hold. He can invoke the patriotic spirit, and Mr Clinton's alleged lack of it, at every turn. He can continue to shower money on valuable constituencies such as defence and agriculture.

He can also go on laying into

the Democrats in Congress like

there is no tomorrow, though

they have been artful enough

to lay some clever traps for

him by inviting him to veto

popular bills such as those on

family leave and cable television

regulation.

Some of the president's recent speeches have been more specific and coherent, like the economics address in Detroit two weeks ago, which is a tribute to the influence of the Baker team. Mr Bush himself does not seem unhappy in what he calls his "campaign mode". It will only require one poll narrowing the deficit with Mr Clinton to make him positively delirious and to claim he has his opponent on the run.

But at the moment it is not working. And it is getting very late in the day.

Political tensions mount in Caracas

By Joseph Mann in Caracas

POLITICAL tensions have risen sharply in Caracas, Venezuela's capital, following an assassination attempt last Wednesday attributed to a radical group, the "Bolivarian Liberation Forces".

The group has threatened to kill prominent figures, particularly politicians which they identify as "corrupt".

The government of President Carlos Andres Perez has stepped up general security, and press reports say that a number of public figures have received telephoned death threats.

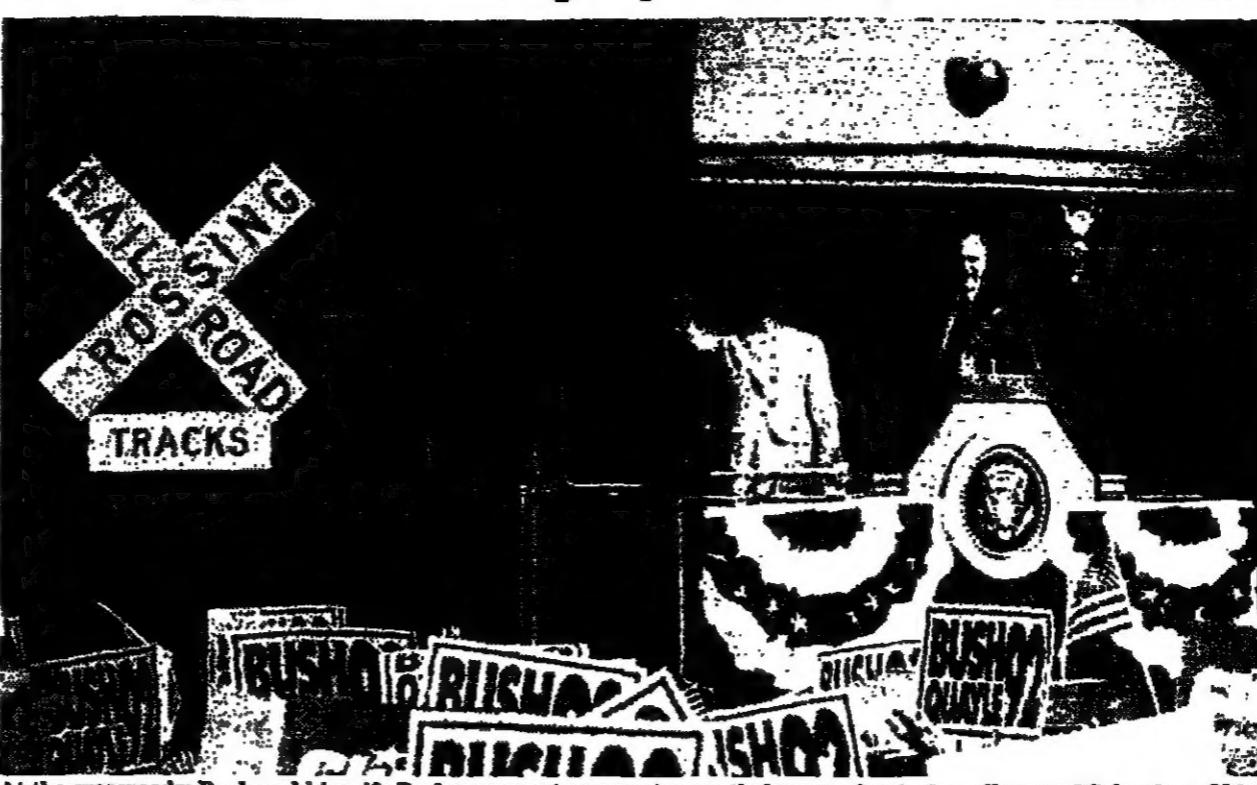
The government also closed down two radio programmes, apparently for broadcasting opinions of callers who supported violent action against corrupt public figures.

Through telephone calls and a communiqué to the media, the new radical group said it was responsible for the shooting on September 23 of Mr Antonio Rios, one of Venezuela's most important labour officials and a leading member of the ruling Democratic Action (AD) party.

Mr Rios, who is also a member of the Chamber of Deputies, was jailed for nine days earlier this month on suspicion of influence peddling, but later released on his own recognizance. He is still under intensive care at a Caracas hospital.

The president of AD, Mr Humberto Celli, at the weekend called for a strong government hand in repressing radical actions, and the Confederation of Venezuelan Workers, which Mr Rios headed until recently, has threatened a violent reaction against its enemies.

The confusion and alarm caused by the shooting came at a difficult time for the government, which faced five months of protests following an unsuccessful military uprising last February 4. University and secondary school students are expected to resume anti-government protests after classes fully resume this week.



At the crossroads: Bush and his wife Barbara wave to supporters as their campaign train pulls out of Columbus, Ohio

Polls continue to suggest Clinton is consolidating his lead

Mr Clinton, in New England, countered by saying that Mr Bush "has no credibility on taxes, everything he says is wrong."

He contrasted the fact that he had a plan, compiled with numbers from the Congressional Budget Office, whereas the president "just raises taxes on everybody."

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The Bush campaign could

also get more negative and seriously dirty. There has been a sharper edge to some "factual" commercials, mostly about the state of Arkansas, now flooding the air waves. The president, or more likely a surrogate, may go so far as to accuse Mr Clinton of physical cowardice or to reveal something or somebody more plausible than Jennifer Flowers on the sex front. It is getting a little late to produce it and it will be harder still to make it stick.

An October "surprise" cannot be ruled out, though what it might now be is anybody's guess. There may be some mileage in a Middle East peace agreement before November 3, but the Arab vote is small and the Jewish vote inclined to return to its Democratic base. Iraq's President Saddam Hussein has virtually disappeared from the public consciousness.

Or Mr Bush could simply wing away at what he is doing now, in the hope that what he is saying about the contrast between his anti-government philosophies and Mr Clinton's

belief in state power will eventually take hold. He can invoke the patriotic spirit, and Mr Clinton's alleged lack of it, at every turn. He can continue to shower money on valuable constituencies such as defence and agriculture.

He can also go on laying into

the Democrats in Congress like

there is no tomorrow, though

they have been artful enough

to lay some clever traps for

him by inviting him to veto

popular bills such as those on

family leave and cable television

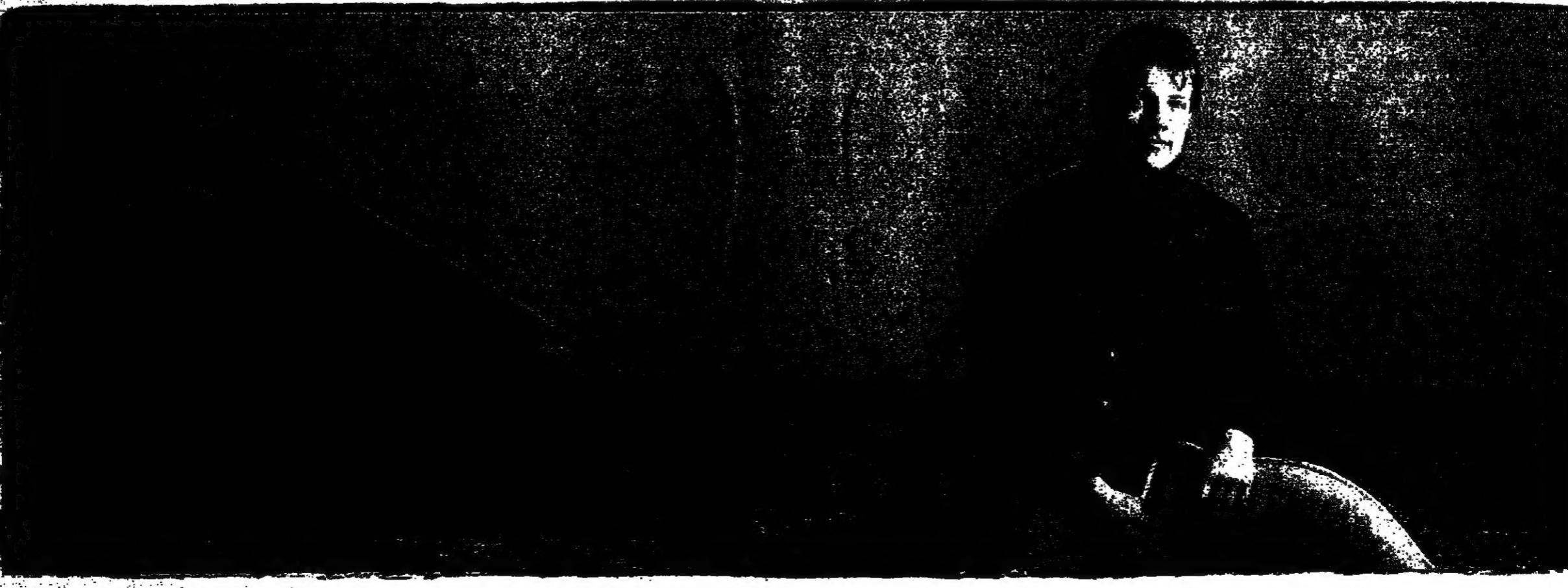
regulation.

Some of the president's recent speeches have been more specific and coherent, like the economics address in Detroit two weeks ago, which is a tribute to the influence of the Baker team. Mr Bush himself does not seem unhappy in what he calls his "campaign mode". It will only require one poll narrowing the deficit with Mr Clinton to make him positively delirious and to claim he has his opponent on the run.

But at the moment it is not working. And it is getting very

late in the day.

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NEWS: INTERNATIONAL

Kenya expects loans to resume

By Michael Holman, Africa Editor

MULTILATERAL lending to Kenya, suspended for nearly a year, is expected to resume shortly. Prof George Saitoti, the country's vice-president and finance minister, said in London at the weekend.

Mr Saitoti, speaking after talks in Washington last week with the International Monetary Fund and the World Bank, said that both institutions had broadly endorsed Kenya's performance under a revised reform programme.

Angola rivals try to calm voters

ANGOLAN President José Eduardo dos Santos met his former civil war foe, Unita leader Jonas Savimbi, for last-minute talks on abolishing their armies ahead of the country's first multi-party elections this week, Reuter reports from Luanda.

"There is no more war," Mr Savimbi said as he emerged from the meeting at the weekend at Mr dos Santos's Lissabon residence.

The two sides earlier this month had pledged to form a government of national unity and disband their armies before the September 29-30 vote. However, talks had been deadlocked over several issues including the choice of a new chief of staff and demobilising 50,000 men remaining from the original combined 150,000 force.

Diplomats said the meeting was crucial to create an image of calm following campaign violence which has claimed at least 40 lives.

On Saturday, three people were hurt when a drunken man hurled a grenade at a rally addressed by Mr dos Santos in the central port of Benguela. Police fired into the air and arrested the man.

In Luanda, Mr Savimbi told

Although not all issues had been resolved, there had been sufficient progress for the early release of blocked World Bank resources - "about half of the \$300m (£175m) that has been held up", according to Mr Saitoti.

"It's the best news since last November", said the minister, referring to a Paris conference of donors, chaired by the World Bank, which suspended lending to Kenya and called for political reform and more effective implementation of the country's structural adjustment programme.

Although some bilateral donors, including Britain,

shortly afterwards President Daniel arap Moi lifted a ban on opposition parties and a general election is due to take place by next March.

At the same time the government began measures to reduce the budget deficit, which was running at 6.7 per cent of GDP on an annualised basis, according to the IMF in December 1991. This was well over the ceiling set under the three-year structural adjustment programme, due for renewal in May this year.

A combination of tax measures and spending controls,

believe that it is time to review the Paris decision, the US has been more cautious, apparently waiting for Mr Moi to set a firm election date.

In April Kenya and the Fund agreed on what was called a "shadow programme" covering the period to January 1993. If the government meets performance targets - notably the budget deficit and parasocial reforms - the final tranche of the extended structural adjustment facility (ESAF) will be released.

In addition, a parasocial restructuring and privatisation programme has been agreed to with the World Bank.

including a freeze on civil service recruitment and cancellation of projects wholly government financed has brought the deficit down substantially, said Mr Saitoti.

According to a recent Fund report, the deficit for the year from June 1991 was about 3.5 per cent. It is estimated to have been less than 1.5 per cent over the period December 1991 to June 1992, at an annualised rate.

Many of those killed in the crash late on Saturday were believed to be middle-ranking army, navy and air force officers attending a Nigerian Command and Staff College course at Jaji, in northern Kaduna state, and some of their instructors.

"The plane nose-dived three minutes after take-off into a swampy area," said an official in Abuja, the capital. It was heading for Kaduna.

It was Nigeria's worst air force crash since independence in 1960.

• Boycott and fraud charges soured the final round of Nigeria's presidential primaries, Reuter reports from Lagos.

Police arrested at least 50 people on electoral malpractice charges during Saturday's polls in 10 states, boycotted by nine of the 12 Social Democratic party (SDP) candidates.

UAE and Iran in islands talks

Negotiators from Iran and the United Arab Emirates opened talks yesterday on a territorial dispute in the Gulf that could plunge the world's main oil region into new crisis, Reuter reports from Abu Dhabi.

Gulf diplomats said the Emirates were preparing to insist that Iran should not only rescind measures which it says amount to the annexation of the island of Abu Musa, but should also hand back two other Gulf islands.

They said the UAE would demand the return of the Greater and Lesser Tumbs, seized by the former Shah of Iran in 1971.

The diplomats said if the talks failed to make headway, the UAE would raise the issue at the UN when its foreign minister addressed the General Assembly on September 30.

Nigerian air force crash kills 163

A NIGERIAN air force C-130 transport aircraft crashed soon after take-off from Lagos, killing all 163 people aboard, officials said yesterday. Reuter reports from Abuja.

The former ideological enemies are expected to discuss expanding trade ties, the situation where China remains one of reclusive North Korea's few remaining allies, and north-east Asia in general.

The president will hold talks with China's President Yang Shangkun, Premier Li Peng and Communist party general-secretary Jiang Zemin.

Mr Roh's visit comes a month after Seoul and Beijing formalised diplomatic relations.

The two sides have lacked formal ties since the Korean peninsula was divided after the second world war and communist China was founded in 1949.

Trade between China and South Korea has grown strongly in recent years, despite the absence of formal relations.

Bilateral trade reached \$5.8bn (£3.4bn) last year compared with \$3.8bn in 1990. It has already topped \$8bn in the

S Korea leader starts four-day visit to China

By Yvonne Preston in Beijing

first half of this year. South Korean investment in China, which has a population of about 3m ethnic Koreans in the north-east, is estimated at about \$500m. These are funds committed before diplomatic ties were forged, and investment is now tipped to grow rapidly.

South Korea wants Chinese co-operation in solving the nuclear issue in the Korean peninsula. China says it co-operates with the north's nuclear programme only for peaceful purposes. It officially claims to favour the removal of all nuclear weapons from the peninsula and of US troops from the south.

Although South Korean business is happy to see the end of mutual hostility which has put a brake on trade and investment growth in the giant Chinese market, some economists warn of a threat to Korean export markets in textiles and electronics because of China's low labour costs.

Chinese exports have exceeded South Korean exports for the first time this year. In the first eight months of 1992, China exported goods worth \$50.52bn, compared with South Korea's \$49.24bn.

Burma revokes two martial law decrees

By Chit Tun in Rangoon

THE Burmese military government has revoked the two martial law orders giving regional commanders the right to try suspected opponents before military tribunals.

The decrees, in force since July 1989, have been revoked "in view of the improved general situation in the country and in consideration of the interests of the people", said a report on Rangoon radio.

The junta introduced the decrees to stamp out pro-democracy protests led by opposition leader Aung San Suu Kyi, the Nobel Peace Prize winner.

Other martial law decrees, including the banning of gatherings of more than five people, remain in effect.

The government began freeing political prisoners after General Than Shwe replaced ailing hardliner General Saw Maung as its leader, but many senior opposition figures remain in detention.

The decrees were revoked two days after an administrative shake-up in which commanders from the southern, central and northern military regions were appointed ministers.



Young supporters of President dos Santos at a MPLA rally in Luanda yesterday ahead of this week's elections

the MPLA (Popular Movement for the Liberation of Angola). Diplomats expect a close vote.

Unita, backed by South Africa and then Washington, fought against the MPLA which set up a one-party state with Soviet and Cuban aid when Angola gained indepen-

dence from Portugal in 1975.

The war, which killed hundreds of thousands and ruined the economy, ended with a peace accord in May 1991.

Some 800 international observers - half from the United Nations - are scattered across the country to

monitor voting.

• Four Russian crew and 11 Angolan passengers died yesterday when a UN helicopter used by election observers crashed in northern Uige province, UN officials said. Only one person aboard, an Angolan, survived the accident.

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Government urges Nuclear Electric to scrap contracts

By David Lascelles,
Resources Editor

THE GOVERNMENT is putting pressure on state-owned Nuclear Electric to cancel some of its contracts for selling power to regional distribution companies.

The aim is to create more room in the market for electricity generated from coal, and so ease the conclusion of British Coal's latest round of contracts, which are due to be negotiated while it is still in the public sector.

Although British Coal has agreed terms for new contracts with the power generators, they still depend on the ability of generators to sell the power on to the regional distributors.

The government's attempts to make space in the electricity market have angered Nuclear Electric, which operates the 12 nuclear power stations in

England and Wales, and the distributors. It is still not clear whether the tactic will succeed.

Neither the Department of Trade and Industry nor Nuclear Electric was willing to comment, and Norweb, one of the distribution companies involved, said it could not discuss commercial negotiations.

The contracts date back to December last year when Nuclear Electric held an auction at which the distribution companies bid for short-term and long-term supplies. They were signed at an average price believed to be 2.8p a kilowatt hour, but the new coal-based contracts are being offered at between 3.2p and 3.5p a kWh.

Regional companies are therefore in effect being asked to buy costlier power. Although they are allowed to pass all changes in their elec-

tricity costs through to their customers, higher prices would still damage their image and their sales.

The government may also be counting on driving a wedge between those distribution companies which have nuclear contracts on what now appear to be very good terms, and those which do not and therefore resent being obliged to buy costlier power.

If the government persuaded Nuclear Electric to cancel the contracts, the distribution companies might be told it was because of force majeure.

The contracts are based on hedging arrangements, rather than direct supply, and would not affect the capacity of Nuclear Electric if they were cancelled. The state-owned company, which as a generator has about 20 per cent of the market, is keen to show commercial independence.

MRS BARBARA Mills QC, director of public prosecutions and former head of the Serious Fraud Office, yesterday called for radical action to tackle the problems of long fraud trials.

She told the British legal profession's annual conference in London that the country could no longer afford to live with the present system. Public confidence had been badly damaged by the Blue Arrow and Guinness cases and needed to be restored urgently.

Mrs Mills said time limits should be imposed on trials - with none taking more than two months.

Trial judges should have the power to decide how much time should be spent on each issue in a trial. Barristers should be limited to half an hour on each issue. A simple fraud offence should be introduced and the prosecution

should be obliged to produce short indictments.

Plea-bargaining should be encouraged. Mrs Mills said that at the moment the justice system achieved very little for victims of fraud. In the US plea-bargaining had been instrumental in recovering millions of dollars for victims.

Both prosecution and defence should be compelled to co-operate in identifying the issues for trial by early disclosure of their case during pre-trial hearings.

The intention behind the special pre-trial procedure for fraud cases introduced by the 1987 Criminal Justice Act was excellent, but did not work because it had no teeth.

Defendants who did not co-operate should not be allowed to give evidence and cross-examine on issues at the trial which they had not disclosed their position on during pre-trial hearings.

Action urged to tackle lengthy fraud trials

By Robert Rice,
Legal Correspondent

MRS BARBARA Mills QC, director of public prosecutions and former head of the Serious Fraud Office, yesterday called for radical action to tackle the problems of long fraud trials.

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Isabelle Clavavola, ballerina, photographed in a rehearsal room at the Paris Opera Garnier.

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Probe of BCCI Bank 'bribes'

By Jimmy Burns
in London
and Alan Friedman
in New York

THE British Serious Fraud Office and US authorities are investigating allegations that at least two Bank of England officials took bribes from senior executives of the now-collapsed Bank of Credit and Commerce International during the 1980s.

The officials were the subject of an earlier internal inquiry by the Bank of England which found no evidence of wrongdoing.

A Bank of England official said yesterday: "We are aware of these allegations and have been for some time. When we first became aware of them we investigated them exhaustively and found they had no substance whatsoever. But in view of the seriousness of the allegations we referred them to the criminal authorities."

The Bank launched its internal investigation more than nine months ago after it learnt that the allegations had been made to US investigators probing the BCCI affair.

The allegations were made by an individual claiming to be on familiar terms with a number of BCCI officials. The individual, who describes himself as an accountant and former Pakistani military intelligence officer, is believed to have told Mr Robert Morgenthau, New York district attorney, that in 1980 he saw briefcases filled with money being passed by BCCI executives to middle-ranking Bank officials.

According to a senior US investigator, the alleged bribes may have been in the form of both cash and sexual favours. The latest BCCI allegations came just days before the expected publication in the US of a report by Democratic senator John Kerry. The report is expected to be scathing about the Bank's handling of BCCI.

MANAGEMENT

Britain's charities are big business but only a minority of trustees understand their financial, legal and managerial responsibilities, says Alan Pike

Good intentions are not enough



Top 10 fund raising charities

	Total voluntary income	Total income	Net income
National Trust	£5,727	104,276	25,371
Royal National Lifeboat Institution	47,368	62,720	15,352
Salvation Army	45,027	82,078	37,751
Imperial Cancer Research Fund	42,117	52,927	10,810
Cancer Research Campaign	40,254	49,375	9,121
Save the Children Fund	38,810	52,196	23,606
Barnardo's	36,938	50,553	13,571
Help the Aged	34,944	26,253	20,350
Guide Dogs for the Blind Association	34,445	32,785	18,787

Sources: Charities Aid Foundation (1991)

Once upon a time, there was a £17bn-turnover business sector with 220,000 employees, full of companies run by people who did not know whether or not they were non-executive directors.

This sounds like the beginning of a corporate fairy-tale; it is, however, present-day reality for Britain's voluntary sector.

A survey into the training needs of charity trustees has made the remarkable discovery that only one-third of volunteers serving on management committees knew whether they were trustees of their charities. Since this year's Charities Act has greatly strengthened trustees' legal responsibilities, some are in danger of learning the answer to the question at their personal cost.

Tomorrow, the National Council for Voluntary Organisations and the Charity Commission will publish the findings of a working party which has examined ways of increasing the effectiveness of trustees and management committees.

The report reveals widespread lack of awareness among trustees of their roles and responsibilities, allied to uncertainties about how lay committee members should interact with full-time managers.

There are an estimated 1m people serving as trustees of charities and other voluntary organisations in Britain, and up to 5m members of management committees. The voluntary sector over which they preside is going through a period of extensive change.

Government encouragement of voluntary organisations taking over the delivery of welfare services from the public sector, a shift from grants to a contract-based funding system, pressures from corporate supporters for efficiency, and straightforward competition between charities for funds, are all propelling the voluntary sector towards a more businesslike management style.

Trustees have wide-ranging legal, financial and managerial responsibilities that have been fortified by the new act. They may be held personally responsible if they fail in their duties.

But, as the working party's report points out, their liabilities are increasing at the very time when - because of the shift towards a more businesslike culture - their actual involvement in management could decrease.

Professional staff will be taking the lead role in contract negotiations and contract management, and there will be a danger that trustees are simply left to rubber stamp their decisions."

Issues raised by the report concerning the relationship between charity trustees and managers mirror the current debate in the private

and related skills to be made available before prospective trustees join committees. There might suggest the report, be scope for a qualification in trusteeship.

Much of the existing training available to trustees is, says the report, "inaccessible, inappropriate or ignored". One explanation for its being ignored is provided by the working party's survey of existing

trustees - while many agreed training was needed, they implied that it was more appropriate for fellow trustees than for themselves.

Tact in the presentation of training activities, suggests the working party, should help to overcome this problem. "Although a trustee might be reluctant to attend a training course for trustees, he or she might happily take part in a strategic

planning meeting, attend a briefing on charity law or participate in the organisation's internal review."

Large charities including Save the Children, Barnardo's and Mind have begun formalising the induction of trustees and committee members. But nationally, only an estimated 20 per cent of charity trustees receive formal introduction to the work of the organisations they join, with fewer than 15 per cent receiving training directly related to trustees work.

The working party wants to see a range of new training initiatives developed, including a standard information pack for voluntary organisations and expansion of developments like the voluntary sector management course launched by the Open University last year.

It says the Charity Commission should play a leading role in trying to persuade the government, local authorities and other funders to invest in improved provision of advice, support and training for trustees.

Improved training alone would not necessarily broaden the base from which most trustees are selected. To achieve this, the working party wants employers to encourage trusteeship among their staff by offering paid time-off - it compares this with organisations including British Gas, IBM and Esso already allowing employees time off to serve as school governors.

It hopes the CBI, Industrial Society and Institute of Directors will promote a campaign to explain the role of trustees and attract more recruits from industry.

Some charities, like Barnardo's, require trustees to give written confirmation that they understand the responsibilities they are taking on and such an approach is endorsed by the working party: trustees should, it says, be encouraged to consider at least once a year whether they were willing to continue in office.

"It is essential that trustees are aware of the responsibilities they are taking on. Although they may delegate the work involved in these responsibilities to paid staff, they cannot delegate or avoid the responsibilities themselves."

One trustee described the life-cycle of trusteeship to the working party as follows. "Start as an energetic ignoramus; make every possible mistake for five years; leave as an exhausted expert."

If the working party's proposals for better trustee training succeed, they should at least help shorten stage two of the cycle.

On Trust - increasing the effectiveness of charity trustees and management committees. NCVO Publications, 8 Regent's Wharf, All Saints' Street, London N1 9RL. Price £7.95

Tea and sympathy for under-valued personnel managers

By Adrian Furnham and David Pendleton

Why do so few chief executives come from personnel backgrounds? For most service companies and in many other sectors, the salary bill is the single largest revenue expense, yet those whose principal function is advising on human resource management rarely make it to the top.

Indeed, many of those who work in a broad range of companies are struck by the relative powerlessness of many personnel professionals. This is the case even in companies that have attempted to change the focus of the function by creating "human resources" departments.

The influence of the personnel function is generally highest in the large bureaucracies which are more concerned with the faithful execution of procedures than the achievement of results. But even the large regulatory bureaucracies have recently been seeking to change their cultures towards a greater focus on customer service.

Personnel people are frequently to be found at the confluence of three streams of activity: administration, welfare and industrial relations. However, each of these functions is, itself, changing. Administration is becoming increasingly computerised, requiring less specialised knowledge of procedures but more of systems.

Welfare is seen as anachronistic and is disparagingly characterised as "tea and sympathy", though its function remains important. Industrial relations has changed profoundly since the days of pre-Thatcherite Britain.

Other reasons for personnel's apparent decline are more self-inflicted.

• Personal attributes. Sensitive to the pain of others, conscious of the costs of redundancy and sensitised to personal difficulties, personnel managers are chosen, not for their tough independence, but for their caring personal which may well count against them.

• Reactive approach. Coming from an administrative background, some personnel specialists have a detailed and reactive approach to work and find it difficult to

make a contribution to the creation of future strategy, even when the creative use of human resources may make the most enormous difference to a company's competitive strength.

• Lack of information. Unlike colleagues in operations or finance, they frequently lack an important source of management information which will guide senior managers' decision-making.

• Invisibility. It is frequently difficult or impossible to detect the effect of the personnel department on an organisation. Most other departments' effects are readily discernible and their impact is immediate.

If the personnel specialist has a role in the future, it is as an internal consultant to line management. But, in order to play this role, specialists will have to develop themselves.

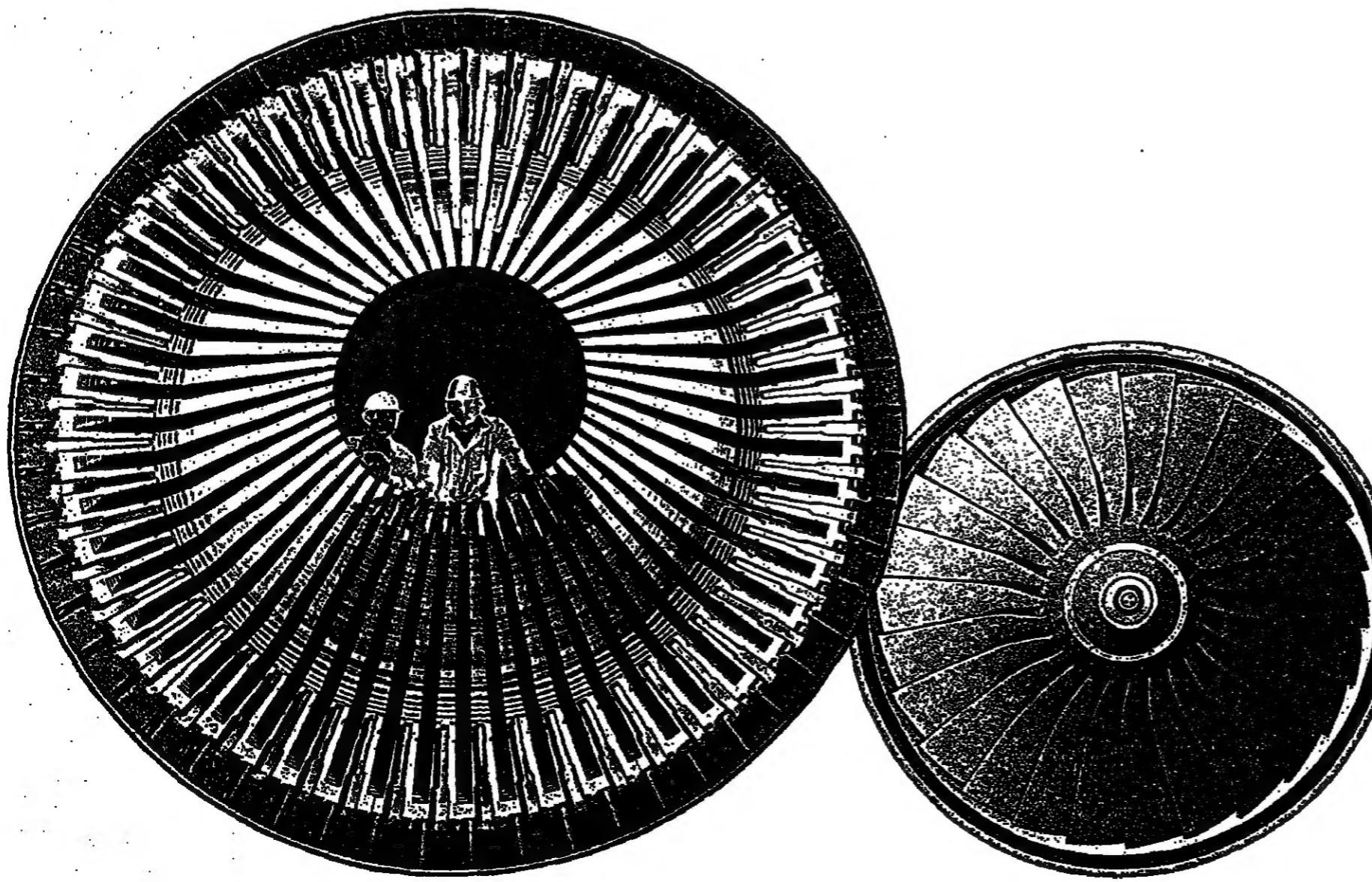
First, as markets change, organisations need to change. Helping to develop the organisation and its workforce requires a great deal of skill which it would be legitimate for many line managers to seek in the personnel function.

Second, personnel departments should be playing a role in devising tracking systems to enable senior managers to keep in touch with the thoughts and feelings of employees. Those who advocate Management By Walking About suggest that managers will automatically discern what is important. But this does not take into account the difficulties of tracking the mood of the large, complex and multinational organisation.

Finally, there is a perennial need to use human resources creatively and come up with increasingly compelling reward schemes which are not based on contributing to salary inflation. Personnel departments need performance-related strategies which are logical, coherent and integrated both with other departments' plans and overall business plans.

Adrian Furnham is Professor of Psychology, University College London. David Pendleton is a psychologist and a director of consultancy Kiddy and Co.

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THE WEEK AHEAD

ECONOMICS

US figures take centre stage

ATTENTION shifts to the US this week where a string of indicators on the real economy is unlikely to provide much comfort for President George Bush, as he steps up his campaign for re-election.

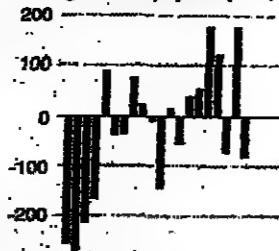
One of the most politically sensitive indicators — the non-farm payrolls — is forecast to show a small fall, although the data will be distorted by several factors, including the termination of around 150,000 jobs created following the Los Angeles riots. Furthermore, September's data did not benefit from the federal summer jobs programme.

This week's national association of purchasing managers index is likely to add to the picture of a sluggish economy by confirming that manufacturing industry in the US is experiencing a very weak expansion.

In the UK, official reserve figures for September, out on Friday, will give some indication of the cost of supporting sterling ahead of Britain's departure from the European exchange rate mechanism on September 16. At the end of August the Bank of England's reserves stood at \$44.4bn. The reserves were drawn on heavily in September as the Bank intervened on the foreign exchanges in an attempt to hold sterling at its then ERM floor of DM2.7780.

The depreciation will have been partly offset, however, by the proceeds of the £1 billion borrowing announced at the beginning of the month. About

US employment



half of this was drawn in September, while overseas inflows associated with the third instalment of the regional electricity companies' privatisation have brought in about £250m, according to some economists' estimates.

A number of inflation measures are due out in Germany this week including import prices and provisional cost of living figures. These, as always, will be closely watched for signs that inflationary pressures in the German economy — which lie behind the Bundesbank's tight monetary policies — are easing.

In August, the cost of living rose by 0.2 per cent on the previous month in spite of a sharp fall in seasonal food prices. Rents and services inflation continued to rise at a well above average rate with increases of around 0.6 per cent on the month. The annual rate of inflation in August was

3.5 per cent, compared with 3.3 per cent in the year to July. Most economists are forecasting a low month on month rise in September.

"The beneficial effects of the very strong D-Mark on import prices and producer prices, along with continuing weak commodity prices should continue to help contain inflationary pressures," said Ms Ruth Lea, economist at Mitsubishi Bank in London.

Other economic events this week follow. The figures in brackets are the median of economists' forecasts, from MMS International, a financial information company.

TODAY: Brussels, EC finance ministers meeting; UK, Blackpool, Labour party conference begins. Continues until October 2. Japan, August retail sales (down 1.8 per cent on year).

MORROW: UK, Q2 savings ratio (11 per cent), Q2 real personal disposable income; France, consumer prices index (up 2.7 per cent on year); US, August leading indicators (down 0.2 per cent), September consumer confidence (57.0), September agriculture prices.

WEDNESDAY: France, government releases 1993 budget; August unemployment rate (10.3 per cent); Denmark, August unemployment rate (11.3 per cent); US, September Chicago NAPM; August new home sales (\$80,000); Canada, July real GDP (unchanged on month), July building permits (down 3.8 per cent); Japan, August construction orders, reserves.

August housing starts (up 7.9 per cent), August construction starts.

THURSDAY: US, initial claims for week ended September 19 (412,000), state benefits week ended September 12, September NAPM (63.8 per cent), August construction spending (up 0.3 per cent), money supply data for the week ended September 21; Japan, September foreign exchange reserves.

FRIDAY: Germany, Bundesbank council meeting in Schwerin, east Germany; UK, September official reserves (down \$15bn); US, September non-farm payrolls (down 50,000), September manufacturing payrolls, September hourly earnings (up 0.1 per cent), September average work week, September unemployment rate (7.7 per cent), University of Michigan September survey of US consumer sentiment; August factory orders (up 0.1 per cent), August factory shipments; Canada, July leading indicator (unchanged on month); Denmark, trade balances excluding ships.

DURING THE WEEK: Germany, August import prices (down 0.5 per cent on month, down 4.1 per cent on year), October industrial production (down 0.2 per cent), German manufacturing output (down 0.1 per cent), provisional September cost of living (up 0.3 per cent on month, up 3.6 per cent on year); Netherlands, consumer price index (up 0.5 per cent on month, up 3.6 per cent on year), Italy, August foreign reserves.

RESULTS DUE

FOR Sears, the retailing group behind such names as Selfridges, Wallis, Dolcis and Olympus, the most interesting number at tomorrow's interim presentation will not be the forecast profit figure of about £25m before tax and exceptional, but the size of the latter item and the fate of the dividend. Opinion is split over whether the £5.85p payment will be paid.

Having sold the menswear division and warned of an accompanying £22m extraordinary charge, Sears will probably deal with its other problem

division, footwear, above the line.

One analyst estimated £40m to £50m of exceptional costs for the restructuring of the British Shoe Corporation. Up to 300 of its shops may be candidates for closure.

Forte, the hotels group, announces half-year results on Thursday with City forecasts ranging widely from pre-tax profits of £25m to £40m, compared with last year's £24m. Attention will be focused on the prospect of senior management changes.

Although analysts do not

expect any immediate word on the possible retirement of Lord Forte, the chairman, the group might announce the appointment of some new non-executive directors.

RESULTS ON FRIDAY FROM Amstrad, the electronics and computer company, are expected to show a loss for the year to June 30 of about £70m. The company's PC business, which provides it with the bulk of its revenue, has been battered as the industry's major players have been engaged in an all-out price war.

Few will be surprised if the

results are worse than generally expected. The more difficult question is whether the company will pay a dividend or pass it altogether. Even if a dividend of some sort were paid, it would not substantially dent Amstrad's £100m cash pile and would help to maintain some measure of confidence in the company.

However, given Mr Sugar's stated interest in buying back the shares at 30p each, and the expected size of the company's loss, it is not surprising that many analysts expect Amstrad to pass its dividend.

Few will be surprised if the

The COOPERATIVE BANK
Managed Overdraft Rate Change

With effect from close of business on Monday 28th September 1992 The Co-operative Bank Managed Overdraft Rates for small businesses will be as follows:

9% per month

Premium Rate

1.03

Standard Rate

1.25

Non Standard Rate (A)

1.48

Non Standard Rate (B)

1.57

CO-OPERATIVE BANK PLC
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1 Ballon Street, Manchester, M60 4KA Tel 061-872 3456

U.S. \$100,000,000

B.B.L. International N.V.
(Incorporated with limited liability in The Netherlands
and having its statutory seat in Amsterdam)

Floating Rate Notes due 1993
Guaranteed on a Subordinated Basis
as to payment of principal and interest by

BRL

Banque Bruxelles Lambert S.A./
Bank Brussel Lambert N.V.
(Incorporated with limited liability in Belgium)

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from April 23, 1992 to October 23, 1992 the rate for the final interest Sub-period from September 28, 1992 to October 23, 1992 has been determined at 5% per annum, and therefore the amount of interest payable against Coupon No. 15 on the relevant interest payment date October 23, 1992 will be U.S. \$2,541.67.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

September 28, 1992



Appointments Advertising

appears every Wednesday & Thursday

Friday

(International edition only)

GREEK EXPORTS S.A.
INVITATION

For expressions of interest in buying the assets of PORCEL Mineral Ores, Commercial, Industrial & Shipping S.A.

Within the framework of the government's privatisation policy and on the basis of Law 2000/1991, GREEK EXPORTS S.A., a subsidiary of the HELLENIC INDUSTRIAL DEVELOPMENT BANK S.A. (ETBA S.A.) has been appointed Liquidator by Court of Appeal Order E29/16.9.1992 and intends to sell, with the procedure described in article 16a of Law 1892/1992 as supplemented by article 14 of Law 2000/1991, to private individuals, the entire assets of PORCEL S.A. which is 99.9% owned by ETBA S.A., the remaining percentage being owned by a private person.

PORCEL S.A. was founded in 1985 and is engaged in the exploitation of potash feldspars, sodium feldspars, mixed feldspars and quartz. It is the only producer of feldspar in Greece which is used as raw material for the manufacture of porcelain, glass containers, decorative tiles and other ceramic products.

The factory is situated at Parnassos, Drama, uses modern technology and covers a total area of 1,971 m² and a total volume of 8,526 m³. It has been built on a self-owned plot of 12,440 m².

PORCEL S.A. has mineral rights in various parts of Macedonia and Thrace totalling more than 87,500 acres.

FINANCIAL DATA (in million drs.)			
1988	1989	1990	1991
Total Assets	1,031	1,157	942
Total Sales	39	97	54
	39	97	29

Note: The above figures derive from published balance sheets

PRIVATISATION PROCEDURE

- I. Within twenty calendar days from publication of the present invitation, interested buyers must submit a binding, written declaration of interest.
- II. Prospective buyers, after giving a written promise of confidentiality, can obtain an Offering Memorandum and have access to other information concerning the company for sale.
- III. The announcement of the public tender for the highest bidder will be published within the prescribed time limits and in the same newspapers.
- IV. For any additional information please call the following telephone numbers: +30-1-929.4395, 929.4396 and +30-1-324.3111 to 324.3115.

BUSINESS LOCATIONS IN EUROPE

The FT proposes to publish the survey on
October 21 1992.
The Financial Times reaches more senior European business
executives whose job responsibilities involve taking strategic
decisions about the international operations of their
company than any other English language international
publication.

For more information on how to reach this important
audience, please contact:

Elizabeth Vaughan
Tel: 01-873 3742
Fax: 01-873 4248
or write to her at:
Financial Times Ltd,
Number One
Southwark Bridge,
London SE1 9HL.

Or contact your usual Financial Times representative
Note: www + ECR 1992

FT SURVEYS

COMPANY NOTICES

NEW KLEINFONTEIN PROPERTIES LIMITED
(Incorporated in South Africa)

Reg. No. 01-00854/06

(NKP)

SCHEME OF ARRANGEMENT ("the scheme") PROPOSED BETWEEN
NKP AND ITS ORDINARY SHAREHOLDERS ("scheme members")

BOE Merchant Bank Limited is authorised to announce that, further to the cautionary announcements given on 21 February 1992, 1 April 1992, 3 July 1992 and 24 August 1992, the documentation relating to the scheme will be reproduced in a circular to be posted to scheme members on Wednesday, 14 October 1992.

In terms of a proposed scheme of arrangement, each share in the company's capital will be converted into ordinary shares of 1 cent each and 24 of the resultant 25 ordinary shares of 1 cent each will be converted to redeemable preference shares of 1 cent each to which will be attached, inter alia, the right on redemption of such 24 redeemable preference shares to receive per share in the aggregate of 24 cents. A special dividend of 125 cents will be paid in respect of each remaining ordinary share before the redeemable preference shares are redeemed.

In terms of the scheme, NKP shareholders are required to utilise the special dividend and the redemption proceeds will relate to subscribe in aggregate for 4 620 000 variable rate, unsubordinated, unsecured debentures ("unsecured debentures") of 600 cents each (equivalent to a premium of 14 cents) in NKP and 2 100 000 ordinary shares. An unsecured debenture will be irredeemable unless at least one ordinary share is held.

Consequently, a shareholder who as at the record date for the scheme holds one ordinary share of 25 cents in NKP having an underlying net asset value of 370.6 cents will, upon implementation of the scheme be the holder of two linked units, each comprising one ordinary share and one unsecured debenture, valued at 370 cents per linked unit.

The Transaction

In terms of the transaction, NKP will dispose of all its non-income producing assets and its debts, together with Van Leer House, to AFC Investments Limited, for an aggregate consideration of Rs2 650 million, of which Rs2 500 million shall be attributable to Van Leer House.

Finally, shareholders will be proposed at the general meeting to ratify the acquisition by the company of certain de-merged office properties with an aggregate value of R101.595 million, to be settled by way of an issue of 12 412 293 linked units, with an aggregate value of 620 cents each, and R18 439 million in cash. Van Leer House will be repurchased at the same value and the purchase consideration paid in cash.

Financial effects

The effect of the scheme and the transaction on a shareholder in NKP who held an ordinary share prior to the scheme will now hold 2 linked units as follows:

For NKP	After
ordinary share	Ordinary share
670.6	1 233.07
114.8	0.05*
62	0.05*
N/A	131.51
N/A	131.67

*Notional of scheme

Notional of scheme meeting

The meeting to approve the scheme, notice of which will be published in the Financial Times, London and the Sunday Times and Report on or about 18 October 1992, will be held on Friday, 6 November 1992.

Notice of general meeting

In order to general meeting will be held after the scheme meeting, to approve, inter alia, the adoption by the company of a new memorandum and articles of association, the change of the company's name, a division of capital, the creation and issue of shares of unsecured debentures and its acquisition of certain retail and office properties.

Notices to holders of share warrants

In accordance with NKP's terms of arrangement, notices are hereby given to holders of share warrants that they must surrender such documents in any of the following addresses

PEOPLE

Gregory's new chapter at Pentos

Clive Gregory is returning to Pentos, the booksellers and office equipment retailers - to the same position he left ten years ago. He will be group finance director, and will replace Patrick Hooper, whom Gregory recruited in 1977. Hooper moves to "another public company" shortly to be announced.

In the meantime, Gregory has been chief executive of greenhouse and conservatory manufacturer Halls Homes & Gardens, a management buy-out company he took out of Pentos in 1982, and floated on the USM four years later.

The company has just gone into receivership, following the

loss of its biggest customer, B&Q. Gregory, however, left last November, when he says he had done all he could do in terms of cost cutting and asset reduction. "It was set reasonably fair then," he contends. But Halls Homes & Gardens' market has been particularly badly hit by the slump in consumer confidence - even if Pentos has been reacquainting himself with Pentos in the past six months by advising on the integration of Wilding Office Equipment, as well as a small MBO of the parts of Wilding, acquired earlier in the year, that Pentos did not want.

When it was apparent Hooper wanted to leave, the company says it engaged in a full executive search, and then chose

John Jagger, chief executive of PORTER CHADBURN's consumer products division, and John O'Brien, president and CEO of Porter Chadbun Inc have been appointed to the main board.

■ Alan Chastell, formerly head of human resources strategy at BP, has been appointed operations director of EMPLOYMENT CONDITIONS ABROAD or the retirement of David Orr.

■ Paul Humphreys, formerly financial director of Leesa, a division of Porter Chadbun, has been appointed group finance director, and to the board of MCLEOD RUSSEL HOLDINGS. Michael Henderson, formerly a director of two subsidiaries of Hunting, has been appointed mid of McLeod Russel Paint Division, and also to the main board.

■ Colin Denchars has been appointed vice-president material and engineering at HOLMES PROTECTION GROUP; he was formerly sales and marketing manager at Pilkington Optonics.

■ Joe Beeston, formerly mid of URM Agencies, part of Allied-Lyons, has been appointed chief executive of HIGHLAND SPRINGS.

■ Stephen Auty, formerly director of marketing for Merchant Investors Insurance, has been appointed sales and marketing director of THE SCOTSMAN PUBLICATIONS.

■ Graham Harris (below) is joining FOSTER WHEELER as mid of petroleum development after a spell as director general and chairman of the management board of European Transonic Windtunnel, a project established by the governments of the UK, Germany, France and the Netherlands to design and operate a cryogenic wind tunnel at Cologne. Before that he was director and general manager of Foster Wheeler Wood Group Engineering.

■ Maurice Oberstein (left), the New Yorker who became one of the British music industry's most prominent figures, is to retire as chairman and chief executive of PolyGram UK at the end of his year. He will be replaced by Roger Ames, currently managing director of London Records.

Oberstein, 64, came to the UK in 1968 to work for CBS Records as chief manufacturing engineer. He became chairman of PolyGram in 1978 and chairman of the UK arm of PolyGram in 1985. During his seven-year stint, PolyGram UK's market share rose from 15 to 24 per cent.

Oberstein is chairman of the council of the British Phonographic Industry, a post he held from 1983 to 1986 and to which he was re-elected last year. He will remain a member of PolyGram International's management team, responsible for Australia, New Zealand and Canada.

The Trinidad-born Ames worked for EMI UK before joining PolyGram's Phonogram division in 1979. Since 1983 he has been managing director of London Records, which he owns jointly with PolyGram and Tracy Bennett. Under his leadership, London Records developed such acts as Bromski Beat, Bananarama and Fine Young Cannibals.

■ Brian Clayton, managing director for Europe, will be responsible for day-to-day executive decisions.

■ Derek Foord, finance director of STAG FURNITURE HOLDINGS and chairman of Jaycees Furniture, is retiring.

■ Michael Wates has retired from the BRITISH BLOODSTOCK AGENCY.

■ Robert E Lee, a 36-year-old American and chief financial officer of Hanson Industries, is the youngest of a clutch of new associate directors at Hanson.

The others are: Leslie Ashton, 52, chief executive of Hanson Industrial Services; Edwin Silverstone, 50, group vice-president responsible for footwear.

■ Meanwhile, Robert Stiff, 46, has resigned as an associate director on becoming chief executive of Hanson Industries Grove Worldwide.

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Improving offices in Aberdeen

HALL & TAWSE has won contracts totalling £23m.

They include Greyfriars House, a four-storey office block in Aberdeen, which is being refurbished by Hall & Tawse Scotland at a cost of £2.5m. The same company has also won a £2.75m contract to build facilities at Robert Gordon's College in Aberdeen, and a £1.5m contract from the Greater Glasgow Health Board for the extension of the Drumchapel Health Centre.

Hall & Tawse City has gained a £1.6m contract to construct offices for Wey Services in Barking, while Hall & Tawse Eastern has won an order for £800,000 to refurbish a listed building for Boots.

Scottish work

WIMPNEY CONSTRUCTION SCOTLAND has won a clutch of nine contracts worth in excess of £14m.

The largest of the schemes is for the Margaret Blackwood Housing Association. In a £2.5m contract, Wimpney will build two, three-storey housing developments in Greenock. A total of 50 flats will be constructed; 30 of which will be set aside for wheelchair-bound and disabled members of the community.

The second contract, worth just under £2.5m, is for Mobil North Sea through management contractor Ralph M. Parsons. Work involves a combination of new build and fit-out of 10 support services buildings for Mobil's Scottish area gas project at St Fergus in Aberdeenshire.

In Glasgow, Wimpney has won the £2.3m phase three contract to refurbish 114 homes for the District Council on the Whitlawburn Estate. Major structural works will include the creation of balconies.

BUILDING CONTRACTS

New base for German company

The pharmaceutical company MSD Sharp & Dohme has appointed BOVIS GMH, the German subsidiary of P&G's Bovis International, to build a new headquarters building at a cost believed to be in excess of £20m in Haar, 20 kilometres east of Munich.

The construction management contract involves the construction and fitting out of a three-storey 270,000 sq ft building, complete with underground car park. The external facade will be clad in glass and metal curtain walling and the roof will be finished in titanium zinc.

Capable of serving MSD Sharp & Dohme for the next decade, the building is designed with three internal courtyards, a self-contained computer centre, training and conference facilities, a staff cafeteria and kitchen.

The building is designed by

Construction work is due to begin in October with completion scheduled for September 1994.

Major upgrade for M25 motorway

Road. The project is funded by the ODA.

The six-month project is for the preliminary design of the upgrading of 50 kilometres of road on the southern side of the Mau Forest in Kenya.

Any work on this road has significant environmental and ecological impact and these will be key factors in assessing the upgrading of the road.

The brief is to provide an all-weather single carriageway road through this rural area which minimises the environmental impact.

Such rural roads are essential for the growth of the local economy by providing year round access to the local urban areas.

total scheme finished by the autumn of 1998.

Ove Arup & Partners International, in association with W.S. Atkins, has been appointed by the Ministry of Public Works, Kenya, to undertake the preliminary design of the Olengurione-Siluwet

using unjointed continuously reinforced concrete. It is understood that this is the first time concrete has been used on a road this far north.

All bridges are to be completely reconstructed and an additional split level interchange is to be provided at the southern end of the scheme.

Other work includes a £2.2m tower block housing refurbish-

Brechin bypass development scheme

HENRY BOOT, based in Sheffield, has been awarded the £9.1m contract to dual the A94 Brechin bypass following a lump sum design and construct optional bid placed with the Scottish Office.

The 7.8-mile project involves the reconstruction of six kilometres of single carriageway and the construction of a second carriageway alongside

the Government of Jamaica and the Inter-American Development Bank.

The project involves the expansion of patient services into unused floor areas in the paediatric and surgical wards together with the refurbishment of wards on the fifth and eighth floors. Major upgrading of the casualty department and the operating theatre suite and renewal of engineering systems and services to the building and campus will also be undertaken.

Higgs & Hill Czechoslovakia has won the design and build contract worth £1m for the creation of a bottling plant for the joint venture company Coca-Cola AMATL from Australia.

The work involves the completion and adaption of a previously constructed precast concrete framed and partially clad building.

The company is responsible for obtaining the necessary building approvals, the production of the working drawings and implementing the works.

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ARTS

Architecture/Colin Amery

The build-up of Georgian Bath

Georgian Bath is a work of art and like works of art, needs both love and interpretation. A city conceived and designed like Bath should be seen whole and yet understood in parts, just like a great painting. Recently an important new institution devoted to furthering the understanding of the city opened its doors.

The Building of Bath Museum is an intelligent new venture that occupies a mid-18th century building that was formerly the Countess of Huntingdon's Chapel. It stands above the raised pavement of The Paragon, north of Walcot Street and east of The Circus and The Royal Crescent. The object of this new museum, run by the Bath Preservation Trust, is to show how the Georgian city was built.

Let me say at once that this new museum is extremely enjoyable to visit and utterly engrossing. Like all the best museums, it is didactic without being tedious. It is small and comfortable, and the architect for the adaptation of this 1785 chapel, Michael Brown, is to be congratulated on his unobtrusive, economical and ingenuous conversion.

The displays tell a complex story with clarity and precision. The city of Bath that we see today, although it has Roman baths at its heart, is a Georgian city that was planned and built within the century that spanned the reigns of the four King Georges. Edinburgh, Dublin and London all have Georgian architecture but Bath remains unique.

Although the city did grow with the arrival of Brunel's Great Western Railway, and was ignorantly damaged by planners, philistines and architects in the decades following

the Second World War, it does still look like a predominantly Georgian city. There are plenty of places in Bath where the views are those seen by its original creators.

In the new museum, visitors are led through the construction of the city's houses and on through the planning and growth of the city. I enjoyed the first impressions - portraits of the major characters in Bath's development: John Wood the Elder, Richard "Bear" Nash and Ralph Allen.

And Oliver Goldsmith's writings about a typical day's pleasure in the happy valley between Bath's hills is both instructive and a joy to read.

The flavour of the spa and resort is distinctive and agreeable.

The flavour of the architecture is perhaps more difficult to convey. I was impressed by the way one of the first exhibits explains what classical architecture is, and what the language of columns and Orders really means.

You understand it was John Wood the Elder's sense of architectural history that made it possible for him to envision a city of great classical composition in the undulating landscape. He was also intrigued by prehistoric British monuments, and had a sense of the picturesqueness of buildings.

The exhibition demonstrates that the early builders of Bath had more than just aesthetic vision: they were business men with an understanding of leases and profit and, above all, they were completely cognizant of all the practicalities of building.

One of the most fascinating facts that emerges about the building of Bath is that the

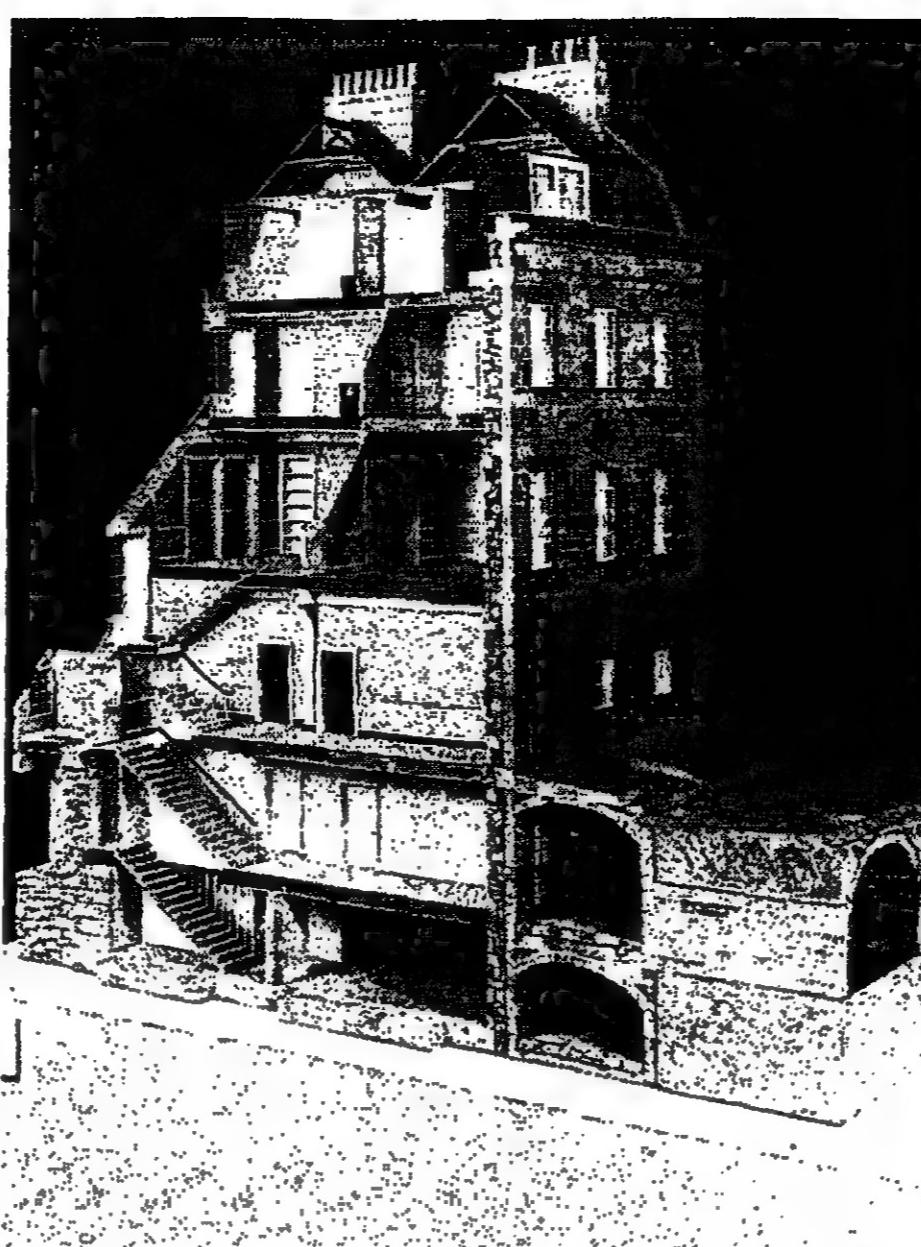
18th century building craftsman was, at his best, virtually an artist. Design at that date did not depend simply upon an architect's effort on the drawing board. It was something that was understood by the best craftsmen at his fingertips. The progeny of that rare and happy marriage of skilled hand and educated eye is to be seen everywhere in Bath.

It is the craftsman's skill that prevents thin carved and cut stone from being seen as something uniform and sterile. Everywhere, inside and outside the houses, there are details and elements of elegant variety. The broad consensus of English Palladian architecture to be seen provides the measured frame for individual architectural interpretation.

It is possible to understand this variety clearly by a glance at the splendid donation of carved wooden models of the facades of a wide range of Bath houses. They have all the qualities of a room full of human faces.

The success of the assembly of all the houses and public buildings into one unified stone city can be judged from the large model of the whole of Georgian Bath. The visitor can also illuminate at the touch of a button the chronological sequences of the city's development and to pin-point individual buildings. There is not space to show the effect of new developments on the precious fabric of the older city, but I was told that from time to time displays about threats to the city will be shown.

There are many routes into an understanding and appreciation of architecture and a popular one begins with an enthusiasm for interior decoration. There are several detailed dis-



The Building of Bath Museum: an unobtrusive, economical and ingenious conversion

pays about plasterwork, joinery, the composition and colour of paint and the disposition of furniture, that bring the architectural story around to style and comfort. There is no doubt about the elegance of the in the city, and the nature of the interiors helped to shape a degree of formality and man-

nern in the conduct of the long days of pleasure.

The Building of Bath Museum is already deservedly popular. It is a well-cut key to the city, opening doors that will lead to the paths of love and understanding through the glorious architecture. The eyes and brain are stimulated in a

way that immediately enhances any walk through Bath.

The Preservation Trust and the whole team responsible for this skilled exercise in interpretation deserve great praise. It could be a precedent for similar displays in other historic towns.

Opera

Katya Kabanova

Glyndebourne Touring Opera launches its annual autumn tour in a new and rewarding way. The home theatre, normally the launch pad, has been rendered unusable by the current re-building programme, so the company set off instead with a month-long sojourn at Sadler's Wells Theatre - its first-ever in London.

This is a splendid venture. Too little opera of a non-metropolitan origin has been reaching London recently: the programme of the tour - *Katya Kabanova*, *Rigoletto* and *The Rake's Progress* - represents some of Glyndebourne's most interesting work of the last decade-and-a-half; and Sadler's Wells, though not exactly a lovable home-away-from-home, does offer the productions a performing space generally in scale with their original dimensions.

The first opera of the tour, *Katya*, provides an additional source of pleasure: historical appropriateness. In this same theatre 42 years ago, under Rafael Kubelik's baton, Sadler's Wells Opera mounted the first British production of the very same opera - the initial flourish of the enthusiasm for Janáček that was eventually to lead to the current national Janáček boom.

That Katya was performed, of course, in English translation. The

single cloud over Thursday's opening night came with GTO's doffy insistence on having an almost entirely British cast prattle away in carefully-learnt Czech while surtitles pour out overhead. In this of all theatres, and operas, the need for the closest possible communication between singer and audience should surely outweigh any ideological insistence on the purity of the original language.

This factor has to be stressed, since it seemed the main cause of a lack of communication in an otherwise thoroughly well-studied, seriously-addressed performance. Nikolai Lehnhoff's 1985 production, in the beautifully stark, bright-coloured designs of Tobias Hoheisel, offers an unusually definite (if at times over-detailed) response to both the bourgeois Russian location and Janáček's electrically vital musical idiom.

It creates a form of heightened operatic naturalism capable of charging the work with new intensity - a form which then requires to be seized and filled out by cast and conductor equally. On Thursday this task was tentatively approached. David Angus's conducting of the GTO Orchestra was musically

(scoring carefully balanced, words impressively audible) but altogether

too cautious, too lacking in firmness of attack.

Most of the cast sing well - notably Timothy Robinson (a more-promisingly sweet-voiced Kudryash), Adele Paxton (Varvara) and Christopher Gillett (Tichon) - in a rather politely English way. The British debut of the handsome French tenor Christian Papis (Sorja) introduces us to a fine, dramatically responsive singer who would be a godsend to our companies in the right repertory: Gounod and Massenet, I feel, rather than Janáček.

Susan Bullock in the title role has much of the desired freedom and freshness of presence, and produces much tenderly floated soft singing; under pressure she can sound edgy, overstressed. So far only Eddiwe Harry, imaginatively cast as the most slyly venomous of Kabanichas, achieves any consistent stoking of the opera's fire.

Max Loppert

GTO at Sadler's Wells Theatre, September 24 - October 24, then in Plymouth, Sheffield, Southampton, Manchester and Oxford until November 25

head the cast in tonight's performance of *La Bohème* at the Staatsoper (also Sat).

Tomorrow: Ariadne auf Naxos.

Wed: Minkus' ballet *Don Quixote*.

Thurs: Die Zauberflöte.

Fri: Salomé. Sun: Fidelio (51444 2950)

CONCERTS

The Britten Quartet plays works by Ravel, Britten and Dvorák tomorrow at the Musikverein.

Wed, Thurs and Fri: Evgeny Svetlanov conducts the Russian State Orchestra in works by Mussorgsky, Prokofiev, Scriabin and Mahler. Sun: Heinrich Schiff conducts Northern Sinfonia in works by John Casken, Haydn and Beethoven. Next Tues: Claudio Scimone conducts I Solisti Veneti. Oct 8, 9, 10, 11: Radu Lupu plays Beethoven's First Piano Concerto (505 2810)

THEATRE

Theater an der Wien has a new musical entitled Elisabeth, based on the life of the child bride of Emperor Franz Joseph, daily except Wed (599 7719). Eugene O'Neill's play *A Moon for the Misbegotten* is running daily except Sun at Vienna's English Theatre, Josefsgasse 12 (402 1280). This week's repertoire at the Burgtheater and Akademietheater includes

Durrenmatt's *The Visit* and a new play by Elfriede Jelinek (51444 2218)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513



Susan Bullock as Katya and Christopher Gillett in Katya Kabanova

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw 20.15 Vassili Sinaiski conducts Netherlands Philharmonic Orchestra in works by Sviridov, Gershwin and Tchaikovsky, repeated tomorrow. Wed, Thurs, Fri and Sun afternoon: Riccardo Chailly conducts Royal Concertgebouw Orchestra, with piano soloist Martha Argerich (6718 345). Sun in Muziektheater: revival of Offenbach's *Les brigands* (5255 455).

BERLIN
CONCERTS
Tonight at 20.00 in the Philharmonie, Bernard Haitink conducts the Berlin Philharmonic Orchestra in works by Martinu, Dvořák and Bartók. Wed: Heidrun Holmgren plays Beethoven with Berlin Baroque Orchestra. Fri, Sat, Sun: Abbado conducts Brahms' German Requiem (5248 8232). Wed in Scheunenhaus: I Solisti Veneti play Corelli and Vivaldi (2090 2156).

NEW YORK

OPERA

Plácido Domingo sings the title role in Les Contes d'Hoffmann tonight and Fri at the Metropolitan Opera. Tomorrow and Sat: Falstaff with Paul Plisnier, Mirella Freni and Barbara Bonney. Wed and Sat afternoon: Un ballo in maschera. Thurs: Madama Butterfly (362 8000). At State Theater, NY City Opera presents Busoni's Doktor Faust tomorrow, Cav and Pag on Wed, Romberg's operetta The Desert Song on Fri and Sun afternoon, and Die Zauberflöte on Sat (670 5570).

THEATRE

A new production of Durrenmatt's

The Visit, directed by Alfred Kirchner, opens on Fri at Schlossoper Theater (7931 515).

Hugo von Hofmannsthal's

political tragedy *The Tower*,

directed by Thomas Langhoff,

can be seen tomorrow and Sun at the Deutsches Theater. The

production opened in Berlin last

week after being premiered at this year's Vienna Festival (2871 225).

Bob Wilson's Schaubühne

production of Marguerite Duras'

play *The Sickness of Death* can

be seen on Wed (590023).

The Schiller Theater repertoire

includes a new production of

Goethe's *Clavigo* (3126 505).

Maxim Gorki Theater has plays

by George Tabori, Cary Churchill and Peter Shaffer (2082 783).

Frank Castorf directs a new

PARIS

CONCERTS

● Myung-Whun Chung conducts

works by Stravinsky, Mozart and Rimsky-Korsakov tonight in the Opéra Bastille. Oct 7: June Anderson sings opera arias (4001 1616).

● Thomas Hampson gives a song recital at the Auditorium Forum des Halles on Fri. Also on Fri in the Châtelet, Elihu Inbal conducts the Orchestre National de France in symphonies by Schumann and Mahler (4028 2840).

● The 1992-3 season of concerts by the Orchestre de Paris at Salle Pleyel begins on Oct 7, 8 and 9 with Britain's War Requiem conducted by Semyon Bychkov (4028 0796).

● Semyon Bychkov conducts the first night of Adolf Dresen's production of Evgeny Onegin tonight at the Châtelet. The principal roles are taken by Nuccia Focile, Neil Shicoff and Dimitri Hvorostovsky. Runs till Oct 16, with next performances on Thurs and Sun afternoon (4028 2840).

● Theodor Guschlbauer conducts La nozze di Figaro at the Opéra Bastille on Wed, Sat, next Mon and Oct 10, with a cast including Gilles Cachemaille and Marie McLaughlin. A new production of Honegger's Jean d'Arc au bûcher opens on Oct 9. Gwyneth Jones sings the title role in a revival of Elektra on Oct 13 (4001 1616).

● Gabriel Bacquier stars in Louis Verne's operetta Les Mousquetaires au couvent at the Opéra Comique, daily except next Mon till Oct 7 (4286 8863).

DANCE

● Ballet Roland Petit presents

a season at the Opéra Comique from Oct 10 to 30 (4286 8883).

● Rudolf Nureyev's new

production of La Bayadère for

the Ballet de l'Opéra de Paris

opens at the Palais Garnier on Oct 8 (4742 5371).

● Frankfurter Balletp presents

choreographies by William

Forsythe at the Châtelet from Oct 21 to 28 (4028 2840).

THEATRE

● Lithuanian Youth Theatre

presents Chekhov's Uncle Vanya

and Korostylov's play Pirosmani,

Pirosmani from Wed to Sun this

week at Le Rond Point, Théâtre

Renaud-Barrault, Ave Franklin Roosevelt (4256 6070).

● Stephane Braunschweig

directs Chekhov's Cherry

Orchard at the Théâtre de

Gennévilliers, daily except

Mon and Thurs till Oct 18 (4793 2830).

● André Engel's production

of Odon von Horvath's play Tales

from the Vienna Woods opens

tomorrow at Bobigny, daily

except Mon till Nov 23 (4831 1145).

● Zarzuela Historia de un Patío,

Alain Maratrat's theatre

FINANCIAL TIMES

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Monday September 28 1992

Europe must keep moving

WHEN EUROPEAN leaders meet at their emergency summit in Birmingham next month, their task will be nothing less than to craft a crisis strategy for the future of the European Community. Their formal agenda will be more specific: the currency explosion which forced Britain and Italy out of the Community's exchange rate mechanism, and the growing uncertainties over the future of the Maastricht treaty. But the job of the summit will not be to draft technical responses to technical problems, but to ensure that the shock of the present crisis does not drive the process of European integration right off the road.

The Birmingham summit will present a choice between two broadly distinct strategies. The first is that all 12 member states should proceed together along the path they have already mapped out together, which means ratifying and implementing the Maastricht treaty. The alternative would be a strategy of variable geometry, in which some of the member states would move ahead down the road of economic and political integration more quickly than others.

For political and psychological reasons, the traditionally orthodox strategy is to be preferred, if it can be sustained. Not merely are all 12 member states manifestly part of a European family of nations, but the Community's institutional model has always been based on the premise that all member states should normally take part in all joint policies on a basis of legal equality. One consequence of this universalist system is that it gradually reinforces the sense of shared interests; over the years, the 12 have increasingly recognised that their common interests go beyond the narrow specifics of their existing treaties; that is why they negotiated a treaty as wide-ranging and far-reaching as its scope and ambitions as Maastricht.

More soluble

Indeed, then the 12 would press ahead with the Maastricht treaty as quickly as possible, and the British government would bring it back to the House of Commons for ratification as soon as possible. This would still leave the Danish problem unresolved, but it might become more soluble, one way or another, after all the other 11 states had ratified the treaty; at the very least the choices facing the Danish government and people would be more clear cut.

The trouble with this orthodox strategy is that it is not at all clear that it can be put into practice, and very doubtful indeed that it could be put into practice as rapidly as circumstances demand.

Mr John Major, the British prime minister, has reaffirmed his

commitment to the treaty. But he has made clear that he will not bring it back to Parliament until he knows how the Danes propose to deal with the problem of their No vote. Even then British ratification may remain uncertain: it may not be possible to get it through the House without causing a deep split in the Conservative party, and Mr Major may not soon feel strong enough to face that kind of struggle.

Second, it is not at all clear how the Danish No vote can be reversed in a quick and painless way. If the rest of the Community were to offer substantive changes of policy to Denmark, the treaty would have to be renamed, and ratification would have to start from the beginning again. If there are no changes to the treaty, Danish voters have no reason to change their minds.

Deeply damaging

In any case, the combined effect of the British and Danish factors will, at best, be to delay the ratification of the Treaty for another year or so.

Such a delay now would be deeply damaging to the Community process. The Danish and French referendums have revealed serious popular misgivings about the Maastricht treaty, and the currency crisis has cast doubt on the durability of the existing European Monetary System, to say nothing of the future credibility of the Maastricht programme for economic and monetary union. Europe's leaders must urgently come up with responses to restore credibility to the Community process.

One option would be for an inner group of member states to move ahead together more rapidly than the rest, for example towards economic and monetary union in anticipation of the ratification of Maastricht. The treaty expressly allows for such variable geometry, in which not all member states would move to the single currency at the same time; and the present currency crisis has obviously postponed any timetable by which Britain and Italy could move to France &

In practice, any variable geometry initiative can only come jointly from France and Germany. It was their leadership which was primarily responsible for pushing the Maastricht negotiations to a conclusion, and it is their political relationship which will determine the future dynamic of the European Community. If they believe they can make a success of an accelerated move towards monetary union, in association with the Benelux countries, they should press ahead. What Europe can least afford right now is a prolonged period of drift and uncertainty.

The problem of too much energy

WE HEAR little about a world energy shortage these days, at least compared with the era of oil shocks. The World Energy Congress, which has just concluded its triennial deliberations in Madrid, estimates that there is enough oil to last 44 years, enough gas for 57 years and enough coal for several centuries. Moreover these estimates take little account of the role that technology could play in improving both the supply of energy and the efficiency with which it is consumed.

The picture is complicated by the fact that the fastest rates of economic growth in the coming decades may well occur in third-world countries where energy efficiency is lowest. But against this, the former communist countries should make substantial offsetting efficiency gains. Even when the oil and gas do begin to run out, the WEC believes that sufficient strides will have been made to improve the environmental acceptance of both coal and nuclear.

Barring the unforeseeable, this portends plentiful and relatively cheap supplies of energy. The WEC does not expect the price of oil to rise much in real terms before the end of the first quarter of the next century, when the exhaustion of known reserves begins to loom. Opec continues to look like an organisation fraying at the edges.

This is a comforting outlook for the energy consumer. But the prospect of abundant energy also has its darker side. It provides little incentive for the energy industry to diversify sources of supply and develop new fuel types. The longer the energy market remains secure, the stronger will become the tendency to draw on a narrow range of cheap and convenient fuels – as now in the UK with the shift to natural gas at the expense of coal. A sharper element of uncertainty would produce more

hedged energy policies. Although the emergence of a shortage would quickly push up energy prices, this might be too late for the long lead times needed to bring about changes in the energy balance.

Another concern must be that cheap energy will remove the stimulus to technological innovation, and that the sharp gains in energy efficiency triggered by the Opec oil shocks could peter out.

Similarly, energy at its present dictated price is too cheap to warrant wide-scale development of new forms of energy such as wind and solar, even though these may be needed in the longer term.

But the sharper problems are likely to arise in the mounting tensions between energy and the environment. If the WEC outlook is correct, the energy market will not generate enough pressure to reduce consumption, produce cleaner fuels, and encourage a shift towards renewable energy forms. Quantifying environmental benefits and costs is anything but an exact science, but increasingly governments will have to weigh these calculations as rigorously as possible. The energy/environment balance is one that will need to be struck politically, whether through tighter regulation or, preferably, via the price mechanism using taxes.

Although industrialists and consumers in a recession-hit world will be grateful for WEC's comforting message, there is a growing constituency for higher energy prices in a world of traffic jams and dirty power stations where global warming is becoming a matter of strong public concern. As the world shifts towards a greener agenda the case for a costlier energy structure becomes more compelling. In the context of the 30 years over which the WEC is looking, it is hard to avoid the conclusion that more energy taxes will have to come.

to meet the concerns of Denmark, but to leave the monetary side in abeyance. This is not, however, a sensible distinction.

It may be that the Maastricht treaty is dead. Or it may be that the ERM will break up beyond hope of resurrection. But on the assumption that both survive – even if Germany and France also adopt a last track towards monetary union – the monetary and the political sides will have to be brought together.

The Eurowets have a legal case.

The exchange rate mechanism was established in 1979 by a protocol



Charles Tywhitt
Author of *Five Shirts*
Two-fold cotton poplin
The Maastricht treaty and the Europe's exchange rate mechanism have been considered in two separate compartments. The first has been the concern of foreign ministries; the second of finance ministries and central banks.

As a result, politicians and officials who want to establish their European credentials, but dislike – or are indifferent to – the sound money implications of present and proposed European monetary arrangements ("Eurowets" for short) are tempted to advocate the ratification of the Maastricht treaty, after arrangements have been made

Delors himself has always regarded Emu as the central part of Maastricht and the main political vehicle for integration

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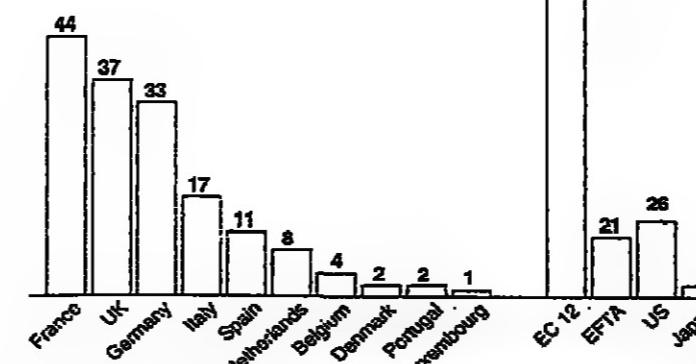
The exchange rate mechanism was established in 1979 by a protocol

European competition policy: keeping control of concentration

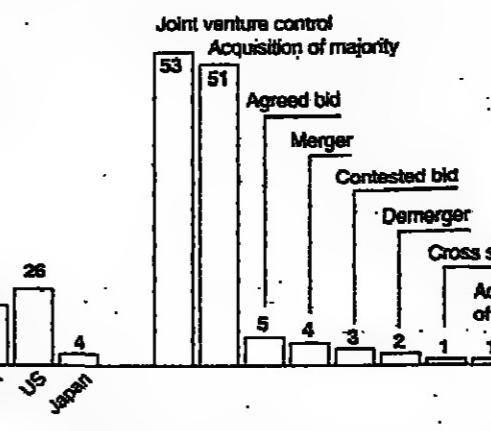
Main provisions of EC merger regulation:

- Applies to "concentrations" which involve companies with combined worldwide sales of Ecu 5bn and two or more companies with EC sales of Ecu 250m
- Once notified by Brussels, deals are automatically suspended for three weeks, or longer if necessary
- Merger task force has one month from notification to decide whether a deal is "compatible with the common market"
- If task force has "serious doubts" about a deal, it launches a full investigation. Commission then has four months to decide whether to approve the deal, block it or insist on modifications

By EC nationality



By nationality



Sir Leon Brittan
EC Competition Commissioner

a whole, he says, has yet to develop a "competition culture" of its own which has evolved in Germany.

Precisely for this reason, some experts say, EC policy needs to be shielded more effectively from political meddling. The argument has been made most insistently by Dr Wolfgang Kartt, former head of the German cartel office, who has called for an independent European competition authority, separate from the Commission.

Sir Sydney Lipworth, chairman of the UK Monopolies and Mergers Commission, has suggested that investigation of cases be entrusted to a special body, independent of the Commission's prosecuting arm, which would be obliged to publish its findings.

Mr Jacques Delor, the Commission president, is also said to favour an independent competition agency on the grounds that it would insulate commissioners from a source of bruising political conflicts. Sir Leon, however, rejects all such proposals.

Constitutionally, competition policy must always be accountable to a higher authority, he says. But to give it off to an independent agency, answerable to the Commission or the Council of Ministers, would be an "open invitation" to those bodies to override the agency's every decision.

His argument is given some substance by the position of France. Since the De Havilland affair, French ministers have seemed more favourable to the idea of an independent agency, in the apparent belief that its powers could be easily checked.

In the last analysis, the strength of Sir Leon's case will continue to depend on his skill in winning arguments in the Commission. Some lawyers think the task force's eight deadlines, which give third parties only 10 days to comment on deals, may allow some questionable mergers to slip through the net. Others believe the Commission is deliberately treadng carefully, lest an unduly harsh line of attack on duopolistic dominance in the Perrier case, its decision left Nestle and BSN of France controlling three-quarters of the French mineral water market and imposed what are widely considered minor conditions on the deal.

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However, goal-scoring may become steadily harder if the Commission's increasingly defensive mood leads it to flinch from controversial decisions. Nor is there any guarantee that Sir Leon, whose term as competition commissioner is due to expire at the end of this year, will have a successor as politically adept, forceful or committed to free-market principles.

Meanwhile, Sir Leon insists on being judged by results. "No system is perfect, though the case has not been made for the changes which have been suggested," he says.

"However, the fundamental reason for change was that the Commission's record showed it wasn't behaving responsibly, the balance of arguments could shift."

The EC's merger task force has risen to the challenge of cross-border regulation, say Guy de Jonquieres and Andrew Hill

Shaken Europe's pillar of strength

This divergence underlines the delicate political balance on which the Commission's authority rests. Uniquely among anti-trust bodies, the Commission is charged with disciplining transgressors which are often not private companies but sovereign governments.

Pressures to compromise arise not just because EC governments seek to influence individual commissioners in cases involving sensitive national interests. The Commission also cannot afford to antagonise too seriously governments which often seem more experimental than its recommendations. Pressures to compromise arise not just because EC governments seek to influence individual commissioners in cases involving sensitive national interests. The Commission also cannot afford to antagonise too seriously governments which often seem more experimental than its recommendations.

Under Sir Leon Brittan, competition commissioner since 1988, and Mr Peter Sutherland, his Irish predecessor, things have changed radically. Both men have sought to transform policy from a reactive safeguard into a positive force for creating and policing the emerging single market.

As well as winning expanded powers over mergers from EC governments, Sir Leon has cracked down on industrial subsidies, toughest scrutiny of state-owned industries and challenged entrenched national monopolies in energy and telecommunications.

His activism has won respect, if not always friendship. It has also inspired countries such as Belgium and Italy, where competition law has been weak or non-existent, to introduce national controls on cartels and mergers.

However, as the visibility and reach of EC policy have grown, so has debate about its direction and exercise. Critics in countries such as France claim it has already gone too far, while free-marketeers in Germany worry that Brussels is not tough and independent enough.

But the fledgling policy is still feeling its way. This is partly because of technical imperfections in the EC merger regulation, which Mr Overbury concedes is "full of

warts, obviously the child of compromise at a very late stage."

For instance, Brussels still has difficulty deciding which joint venture should be vetted by the task force under the merger regulation, and which by another arm of DG IV under Article 85 of the Rome Treaty, which employs different criteria.

Some lawyers also complain that policy is unpredictable. Ms Diana Good, a Brussels-based partner in Linklaters & Paines, a London law firm, says the task force makes too many "experimental" decisions, by which it refuses to be bound in the future.

Legally the most controversial innovation was the task force's objection that the recent takeover of Perrier of France by Nestle of Switzerland would create duopoly – or shared dominance – of the French mineral water market.

Most merger control experts agree that controlling duopolies is essential. However, many question whether the merger regulation entitles the Commission to do so, and whether it was proper to introduce the doctrine so abruptly. Some think Brussels should follow US anti-trust authorities by publishing guidelines setting out planned policy changes.

Mr Overbury rejects guidelines, saying they could prove too constraining and send confusing signals to companies. But some lawyers think the Commission is also reluctant to seek the necessary authorisation from governments for fear of re-opening divisive arguments about the role of merger policy.

Officials insist that debate is already settled. Though France and several southern countries originally wanted a merger policy which favoured employment and creating European champion companies, they say the principle that cases be judged solely by their effect on competition is no longer seriously contested.

However, the solidity of the consensus has yet to be thoroughly

tested, since the Commission has blocked only one deal – last year's planned takeover of De Havilland, the Canadian aircraft maker, by Aerospatiale of France and Alenia of Italy.

Brussels' readiness to brave French and Italian fury is cited by officials as proof of its determination and independence. Yet the decision also exposed the limits of the Commission's solidarity, splitting its 17 members and scraping through by a single vote.

In other cases, the Commission's bark has seemed worse than its bite. For all its objections to duopolistic dominance in the Perrier case, its decision left Nestle and BSN of France controlling three-quarters of the French mineral water market and imposed what are widely considered minor conditions on the deal.

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The case for caution has recently been reinforced by rising resentment in many countries towards meddling by Brussels. EC competition officials are openly relieved to have avoided any contentious proceedings involving France in the run-up to its referendum on the Maastricht Treaty.

Sir Leon has sought to calm the waters by declaring his commitment to "subsidiarity" – the doctrine that decisions should not be made centrally if they can be made nationally. In particular, he wants national courts to hear more EC competition cases.

However, his enthusiasm is clearly tempered by reservations about how far national bodies can be relied on to do the job. Europe as

CHARLES TYWHITT

Author of *Five Shirts*

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South Africa's third man rattles the troika

As de Klerk and Mandela resume talks, Chief Buthelezi has served a reminder of the problems ahead, says Patti Waldmeir

When Chief Mangosuthu Buthelezi every inch the Zulu prince in his leopard-skin skirt and spear rose to address yesterday's gathering of Zulu warriors in Durban, he had only one message to deliver: that no deal on a post-apartheid constitution can be made without him, and that he will extract a high price from anyone foolish enough to try.

It was a sobering reminder of the central fact of South African politics: that the country has not just two warring leaders, but three. Mr F W de Klerk, the president, who represents most whites, many coloured and Indians; Mr Nelson Mandela, president of the African National Congress (ANC), who commands most black support; and Chief Buthelezi, who probably has the support of a large chunk of the 7m-strong Zulu nation, and represents, at the very least, a significant spoiling force.

Chief Buthelezi, whose public speeches have tended towards the hysterical in recent weeks, made clear yesterday that he was enraged by Saturday's peace deal between Messrs de Klerk and Mandela, by far the most powerful leaders in this troika. Government, he said, was conniving with the ANC to set up a political deal excluding other South African leaders (he is the only one with significant support). They would do so at their peril.

It was a chilling spectacle: every one of the 7,000-odd men gathered at a sports ground in the ANC-controlled KwaMashu township carried several "traditional" weapons - the spear and shield, sharpened sticks and hoes - that are to be banned under an agreement reached on Saturday between the government and the ANC. Mr de Klerk had tried to placate Chief Buthelezi by arguing for a clause in the agreement permitting traditional weapons to be carried for cultural occasions, with special permission from a judge. Chief Buthelezi indicated what he thought of that concession: "I will never ever under any circumstances ask anybody for permission to carry a Zulu cultural weapon."

His supporters left the stadium after yesterday's rally - staged to commemorate King Shaka, the belligerent Zulu potentate who subdued much of southern Africa by war - in marching bands, contained only with difficulty by police. Local residents were terrified.

The rally was the culmination of a week of commemorations events for King Shaka, during which Chief Buthelezi has warned of civil war with



The deal between de Klerk (left) and Mandela (centre) enraged Chief Buthelezi (right)

the ANC if the movement carries out its stated aim of marching on the capital of the Zulu homeland, Ulundi. He compared the planned ANC march with the 1879 British invasion of Ulundi - and promised a bloodbath. Zulu spokesmen said they were ready for a new "washing of the spears" at Ulundi.

In one sense, Chief Buthelezi's angry rejection of Saturday's peace deal should come as no surprise: two key provisions of the deal - those covering traditional weapons, and measures to fence off and patrol single-sex township hotels (where Zulu inhabitants predominate) - are directly aimed at his supporters. Yet he was not present at the talks:

Chief Buthelezi: 'I will never ever under any circumstances ask anybody for permission to carry a cultural weapon'

and though the government insists he was kept informed of their progress, his consent was not sought before agreement.

His rejection of the deal highlights the fragility of both South Africa's peace process and the deal struck on Saturday, which marked the resumption of constitutional talks between the government and the ANC, suspended since June. But it does not render the agreement meaningless. In the words of Mr Zach de Beer, veteran leader of the liberal Democratic party: "Inkatha is an important organisation whose co-operation is highly desirable... However, the work must go on whether or not Inkatha takes part."

Nevertheless, Inkatha must be brought back on board, and that delicate task will fall largely to Mr de Klerk, whose government created the Kwa-

Zulu homeland as a "self-governing state" (with Chief Buthelezi as chief minister) and whose Treasury funds its budget. Because of those links, many ANC leaders take the view that Chief Buthelezi will do as he is told by Pretoria, being no more than a glorified South African civil servant.

But this ignores the fact that Chief Buthelezi commands significant political support (at least in his home base of Natal) and, more importantly, that Mr de Klerk relies on the politically conservative Zulu leader to deliver as many as 1m votes to a moderate electoral coalition headed by the ruling National party.

In one sense, Chief Buthelezi commands significant political support (at least in his home base of Natal) and, more importantly, that Mr de Klerk relies on the politically conservative Zulu leader to deliver as many as 1m votes to a moderate electoral coalition headed by the ruling National party.

Under the MFA, British consumers pay £1bn a year to allow the government to enforce quotas against poor countries but not the rich. The arrangement costs the third world \$50bn annually - nearly as much as all western aid put together.

Instead of penalising the third world with trade barriers, would it not be better to reflect the costs of protection into modernising some of the "anti-global" plant which Italian textile giant Zucchi says deters it from investing in Britain ("Zucchi keeps its head down on expansion", September 24).

During my stay, I obtained a copy of the *Traité sur l'Union Européenne* which was issued to all electors and, being bilingual, I started to read the 62 pages of fine print, which might have made some sense to members of the legal profession, but few others. I soon gave up.

I spoke to a number of people in widely differing walks of life, none of whom had read the document, or knew anyone who had. Few really had a considered opinion of the issue, and frequently were just

Misdirected blame for textiles job losses in UK

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Arguments against monetary union underlined by events

From Dr Jörg Schimmelpfennig

Sir, John Bridge attacks the World Development Movement's campaign to phase out EC quota restrictions on clothes and textiles from poor countries (Letters, September 18) in the name of lifting British workers out of poverty. He is on shaky ground.

Only last week the Low Pay Unit reminded us that many British clothing workers are illegally paid less than even the pitiful minimum wage of £2.63 an hour, putting them in the consumer bracket hit most by the 5 per cent hike in clothing prices caused by the Multi-Fibre Arrangement (MFA).

Further, by blaming the third world for job losses he attacks the politically easiest target, not the most economically significant. The lion's share of textile and clothing consumed in Britain is made here or imported from other developed countries. More than 80 per cent of our textiles imports come from other rich countries, mostly other EC countries. To the extent that imports are to blame for job losses (and most studies show technological change and the level of domestic demand to be far more important), we should look across the Channel, not

the British economy, at least as long as the government does not succumb to calls for a too early re-entry into the ERM.

European monetary union, if it had been in place already, would have done to Britain exactly the same as German monetary union did to the east German economy. By setting a too-high exchange rate east German competitiveness was sent into free fall, drastically increasing unemployment. In Germany, one might argue, any other exchange rate between the two currencies, and especially a free floating one, was politically unattainable. In Europe, it is not too late yet.

In contrast to what the German commissioner, Mr Martin Bangemann, said last Wednes-

day, the past week did nothing but underline the arguments against monetary union. Fixed (or semi-fixed) exchange rates are fine for stationary (or almost stationary) economic environments, except that in these cases they won't be needed anyway. Otherwise they are not just unnecessary, they are damaging. And economic environments are changing.

When will economic policy advisers bother to have just one closer look into what Adam Smith and David Ricardo wrote some time ago? Jürg Schimmelpfennig, Department of Economics, University of Osnabrück, PO Box 4463, D-4500 Osnabrück, Germany

No end to fundamentals of Swedish Model

From Dr Elizabeth Bürgen

Sir, Robert Taylor's statement that "popular support for the all-party agreement [in Sweden] suggests that the end of the old Swedish Model will not be a cause for national mourning" ("The ERM and Maastricht: Sweden unites welfare apon strings", September 23) cannot go unchallenged. The most striking aspects of the agreement are that it is a collective agreement which reflects consensus that all

groups in society must share the costs of tackling the nation's economic problems.

It is also striking that most Swedes lay the blame for the crisis at the feet of bankers whose activities in the 1980s have been followed by a banking crisis in the 1990s. These men (sic) are perceived to have been not only incompetent, but also immoral in their greedy pursuit of speculative wealth.

The Swedish decision to pursue a collective solution to

Case against a referendum

From Mr Claude Rodriguez

Sir, I have returned from holidaying in France, shortly after the referendum. During my stay, I obtained a copy of the *Traité sur l'Union Européenne* which was issued to all electors and, being bilingual, I started to read the 62 pages of fine print, which might have made some sense to members of the legal profession, but few others. I soon gave up.

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Why not told?

From Mr John Hughes

Sir, Samuel Brittan, in his Economic Viewpoint (September 24), tells us that he has known since December last year that "something would have to give", but in the interests of the stability of the realm he decided to keep his counsel and not to share his prescience with me and your other readers.

For whose benefit is your Mr Brittan writing: your readers or the realm? Who does he think he is? Who do you think you are: the Thunderer? John Hughes, Gledswood House, Bird Avenue, Clonskeagh, Dublin 14

OBSERVER

Pukka cuppa

Calling all discerning tea-drinkers! What do pianist Richard Clayderman and autumnal flush muscatel Darjeeling Silver Tips have in common?

The answer is marketing whiz David Hutton. As one of the founders of Telydisc in 1978, he had the dubious distinction of launching Clayderman on an unsuspecting public. Now he is trying to reincarnate the East India Company, founded by Royal Charter in 1600 and dissolved in the wake of the Indian mutiny of 1857.

Together with Harrogate merchant Tony Wild, who had the same idea independently, he has gained permission to use the historic company's coat of arms, and the two are planning a range of products including spices, booze and smoking goods.

But the first venture, just set up, is a subsidiary specialising in teas with appropriate guidance from the archives. As well as reviving the original recipe of Earl Grey, the co-directors have located a Sri-Lankan estate established in the 1840s, where the almost forgotten Silver Tip - hand-rolled and sun-dried whole tea leaves - is again in production.

The least we can hope is that the results are less syrupy than Clayderman.

Talking shop

What better occupation for an out-of-work politician than being a chat show host? Former Labour leader Neil Kinnock is to take over BBC Radio's Jimmy Young show for a week in November, and there are rumours that David

Mellor might stand in on the Wogan show.

Brian Walden, the former Labour MP, has made a much bigger hit on TV than he ever did in parliament, as has Robert Kilroy-Silk. Charles Kennedy, the Liberal Democrat president and stand-in presenter on radio's "Start the week", is another MP who sometimes seems to be in the wrong business.

Will the pratting party now be joined by Labour's Bryan Gould? If he's preparing to make his political exit, he should have no difficulty finding a TV spot.

Besides being an accomplished reporter at Thames TV in the early 1980s, he is said to have once turned down the chance of replacing Walden on *Weekend World*.

Given that Gould's 54th birthday is only a few months away, a final career as a TV personality is a tempting alternative.

Rebuilding

Have you noticed how many of the hot-shot builders of the last boom have swallowed their pride and are re-emerging on the boards of far smaller competitors?

The latest is Terry Upsilon, who was on the point of floated Britain's second biggest housebuilder CRH when Hanson took over its heavily indebted parent last year. At 55, he has just been given a non-executive berth at The Berkeley Group, headed by Tony Pidgley, whose ambition is to turn his building firm into the most profitable in its sector.

Pidgley, who is 10 years younger than Upsilon, has already befriended Roger Lewis after he lost his job as chief executive of once high flying Crest Nicholson, and made him his finance director. Meanwhile John Swanson,



worth the wait is another matter.

A good few of the accountants - a breed not generally renowned for their experimentalism - may find eating inside a psychedelic post-modernist collage not exactly to their taste.

There are neo-classical white-framed mirrors at the entrance and a bizarre amateurish relief with tortured figures on one wall. All around, Magritte-style friezes of Grecian vases and paintings are interspersed with panels of fake green marble and softwood. The centrepiece clinging to the ceiling is best described as a squashed metal octopus with red car-tires...

Wealthy women

The editor of *BusinessAge* magazine ought to be invited to the next Buckingham Palace garden party. Amid mounting pressure from the mob for the Queen to pay taxes, her magazine has shown that far from being the wealthiest person in Britain, the Queen is worth a mere £100m.

According to its list of the country's wealthiest females, the Queen is only the tenth richest and ranks well behind Christine Goulandris, a 44-year-old heiress married to Tony O'Reilly. She has an estimated £280m to play with.

As for Britain's richest widow, Lady Eleanor Glover who was married in the late Sir Douglas Glover, is deemed worth at least £200m.

Indigestible

One thing is certain about the new decor of the dining room at the Institute of Chartered Accountants in England and Wales. Its construction must easily have consumed every hour of the weeks during which the restaurant was closed for refurbishment. Whether it was

Guess which advice book has been the longest on the New York Times' current best-seller list?

"How to Satisfy a Woman Every Time" (42 weeks), followed by "More Wealth without Risk" (41 weeks).

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ARTHUR
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Big majority in favour strengthens hand of pro-European campaigners

Swiss endorse rail tunnel plan

By Ian Rodger in Zurich

SWISS VOTERS, often presented as stubbornly opposed to closer ties with their European neighbours, yesterday endorsed a bold but expensive plan for modernising trans-Alpine transport by a surprisingly large 63.5 per cent majority.

Backing for the SFr14.9bn (\$11.5bn) scheme in a referendum has doffed a row between Switzerland and the European Community over Swiss restrictions on trucks driving through the Alps. It appears to auger well for a December referendum on joining the European Economic Area, the enlarged free trade area between the EC and the European Free

Trade Association (Efta). The Swiss also hope that the plan, which involves building two rail tunnels totalling 50 miles running south towards the Italian border, will be the forerunner of a trans-European trend to transfer large amounts of freight traffic from road to more environmentally-friendly rail.

Mr Adolph Ogi, transport minister, said he was relieved adding that the result showed "ecological responsibility and economic sense."

Acceptance by voters was also a pre-condition for Switzerland joining the EEA. Pro-European Swiss leaders were worried that the EC's crisis over progress towards political unity might

have soured Swiss attitudes. But the majority for the plan was more decisive than expected. Uri, the canton beneath which the new Gotthard tunnel is to be built, was one of only two small cantons where a majority opposed the plan. The other was the even smaller twin canton of Appenzell.

It is difficult to assess how much of an indication yesterday's vote is of how the Swiss will vote in the EEA referendum. But the unexpectedly strong majorities in the big German-speaking cantons suggest a definite warning towards European integration.

The Swiss government made clear during the campaign that if

the plan was rejected, the country would be forced by its neighbours to dismantle its restrictions on juggernaut lorries going through the Alps. Swiss voters also knew that rejection of the plan would disqualify them from joining the EEA.

In another referendum yesterday, voters ratified by a 61 per cent margin a proposal to abolish stamp duties on many securities transactions.

The financial community has been trying for years to get rid of the tax. Recent job losses in the banking industry finally seemed to convince the government and the people of the urgency for reform. All cantons had majorities favouring abolition.

The 5 per cent fall in the German equity market last week owed as much to reduced expectations of corporate earnings as to the gyrations of the foreign exchanges. Recently estimates for next year's earnings growth have been reduced to around 5 per cent. Germany's GNP is now expected to rise only 1 per cent in 1993. The revaluation of the D-Mark against trading partners such as Italy and the UK may lead to these figures being revised down once more.

Worries about an erosion of Germany's competitive position provide another explanation of its vigorous defence of the franc. While any benefit of devaluation has often been squandered by countries with poor inflation records, France has better anti-inflation credentials than Germany. It might be expected to exploit any price advantage. Indeed, France has already enhanced its competitive position over Germany since the last ERM realignment in 1987.

Suggestions that the two countries are considering early monetary union thus make commercial as well as, arguably, political sense. France wants to protect its painfully-acquired credibility with the markets, Germany to prevent a franc devaluation eroding its competitive position. But should there be early currency union, German reunification costs may make the experience painful. Annual government payments to the east could be as high as DM127bn this year and may run on at a high level until the end of the decade. With high money supply and lax fiscal control the fall in German interest rates will be slow.

The move follows a joint survey by the International Air Transport Association, the Geneva-based organisation grouping more than 200 airlines, and KPMG, the world's biggest accountancy firm. It revealed wide disparities in the accounting policies and financial disclosures of airlines.

The Iata task force will be announced in Paris tomorrow. It will examine the possibility of establishing a benchmark of international accounting standards to make it easier to compare and measure the financial performance of different airlines.

KPMG says this approach will avoid cutting across national accounting policies that are enforced in various countries.

Mr Frank Harding, head of KPMG's transport industry group, said the survey, which considered the accounting practices of 25 of the world's leading airlines, highlighted the need for a harmonised approach.

"As the airline industry becomes increasingly global with more strategic alliances and more moves towards privatisation, it is imperative to improve financial reporting," he said.

One obstacle to an airline contemplating cross-border capital or investment transactions is the wide divergence in accounting policies and disclosure requirements in various countries, the report argues.

Airlines are currently scrambling to forge partnerships and acquire equity stakes in other carriers to strengthen their competitive position in an increasingly global market. Among the growing number of airline partnership deals, British Airways acquired last week a 49.9 per cent stake in the French regional airline TAT for £17.25m (\$29.4m). It has also agreed to invest \$750m for a 44 per cent stake in USAir, the sixth largest US carrier.

That said, a 5 per cent fall in electricity shares and 6 per cent fall in water stocks seem hard to justify unless investors are simply going on experience of how utilities perform in a rising market. Recent history is hardly auspicious. In the bull market running up to 1987, both British Telecom and British Gas traded to yield premiums to the market of 60 per cent. This may have had more to do with

the regulatory cycle than the market cycle, but water and electricity are also facing the prospect of a tighter regulatory environment. If they are also outpaced in terms of earnings growth by the market, management may be tempted to take bolder steps towards building unregulated businesses. The more aggressively expansionist of the water companies, such as Severn Trent, already trade at a yield premium to the sector.

UK banks

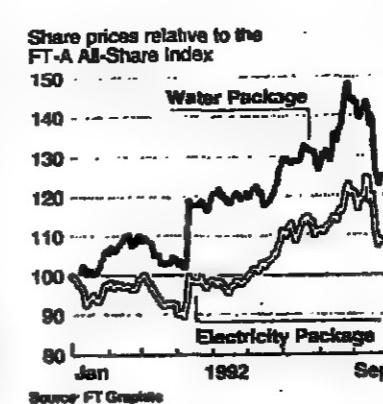
The clearing banks have been early and major equity market beneficiaries of the devaluation. While the FTSE has risen just less than 10 per cent, HSBC and National Westminster are up 11, Lloyds 11 and Barclays no less than 31 per cent. Barclays' sharp rebound may reflect the reasonable assumption that its final dividend, which was in doubt, is now secure. HSBC is helped by its earnings power in Hong Kong dollars. For the rest, the underlying impulse seems to be investors' belief that banks are interest sensitive businesses whose earnings should respond quickly to the government's change of tack.

That argument is, however, easily overstated. It would not do to count on UK bad debt provisions falling especially quickly. The banks' fortunes are heavily linked to the property market. It will take some time before lower interest rates actually produce an increase in asset prices, restoring value to the banks' collateral and floating their customers off the rocks. Consider, too, that bankruptcies usually continue to run at high levels after the cycle has turned. On top of that there is no reason to assume that consumers or business will suddenly become less debt averse, allowing loan demand to grow. The clearers are unlikely to see much organic growth in the short run, while lower interest rates will reduce their earnings on their free cash balances.

It might be different if the yield curve were yet more sharply upward sloping. Then, as in the US, the banks could make easy money investing in long-term government paper, an activity that ties up little capital. But that would require base rates to fall a lot further, perhaps to 6 per cent, which looks remote. The best that can be said is that the situation is not getting worse, but results this autumn from TSB and Royal Bank of Scotland could produce reminders of how many provisions remain to be made.

THE LEX COLUMN

Europe's new horizons



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FINANCIAL TIMES COMPANIES & MARKETS

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Φ 17



INSIDE

Test for derivative skills of banks

The past fortnight has provided a stiff test for the skills of banks active in the swaps and other derivatives markets. Has the huge cost of systems in recent years – built both to manage risk and to make it possible to price complex financial instruments – been money well spent? The answer is: "Not entirely". Page 21

Auditors at the interim

Casual readers of some interim results released this month might have thought they had been given a sneak preview of the full-year figures. A growing number of companies are providing detailed half-yearly information. But *Guardian Royal Exchange*, the insurance company, and Guinness, the drinks group, have gone several steps further. Page 18

Gilt yields change direction

Experts in the gilt-edged market have had to blink hard in the past two weeks, and not just because of the pound's exit from the European exchange rate mechanism. The gilt yield curve, which has been downward sloping for virtually all the past 10 years, has changed suddenly to move upwards. Page 20

Ina prepares for sell-off

A list of Italian privatisations candidates is Istituto Nazionale delle Assicurazioni, one of the country's biggest and best known insurers. Much preparation is necessary before Ina can sell its shares to the public. Some of its methods stem from a system dating back to 1812. Mr Lorenzo Pallesi (above), Ina's chairman, said: "The aim was to guarantee market stability and avoid damage to policy-holders if a company collapsed. Although seeming unfair, the system was very attractive for all concerned." Page 19

US looks inwards

While currency chaos continues in a newly divided Europe, Wall Street has diverted its attention from the implications of Maastricht back to the domestic economic outlook and the presidential election. Only the most optimistic economists or spin doctors for the Bush re-election campaign place much faith in a short-term US economic recovery. Page 20

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HIGH-speed European Monetary Union is the talk of the town in Brussels.

First came a mischievous speech by Mr Jacques Delors, European Commission president; then some impropriety comments by Mr Alfonso Verplaetse, governor of the central bank in Belgium, who said on Friday that it was possible for France, Germany and the Benelux countries to move immediately to a common currency.

When Mr Norman Lamont, UK chancellor of the exchequer, meets his fellow European finance ministers in Brussels today, he may well wonder how much this talk of a "fast-track" to economic and monetary union (EMU) is bluff, a Franco-German ruse to calm the markets and pressure Britain into rejoining the ERM. But how much is it a serious statement of intent?

Rumours of a secret Franco-German pact gathered steam after a private meeting between Chancellor Helmut Kohl and President François Mitterrand, two days after the lukewarm endorsement of the Maastricht treaty in the French referendum. They grew in intensity as the Bundesbank and the Banque de France joined forces to prop up the franc, and they reached a crescendo with Mr Delors' remarks at a conference on the future of the European Community Thursday night.

In a thinly disguised reference to growing British opposition to Maastricht, Mr Delors said: "If some countries are looking for alibis for delaying the treaty, it may well be that others take the lead."

Mr Delors' comments can be read several ways. At face value, he shares the view of President Mitterrand and Chancellor Kohl that political uncertainty about the fate of the Maastricht treaty is driving speculation in the money markets. Having put too much faith in EMU, the markets are now overreacting to the impact

High-speed train to EMU begins to gather steam

Denmark's rejection of the treaty. The aim, therefore, must be to restore market confidence in EMU – without necessarily shrinking the timetable for a common currency by the end of the century.

A second interpretation is that Mr Delors knows that Maastricht's goal of monetary union for the Twelves by the end of the century – never likely – now looks impossible.

Sterling's withdrawal from the ERM accentuates the division of Europe into two tiers, a northern club and a less pro-

grammed southern tier, including Italy, Greece, Portugal and Britain. Now this reality has sunk into the consciousness of markets, it makes a leap to monetary union more likely.

In Brussels, there is plenty of high-powered thinking about how to proceed, fast-forward, to EMU.

Mr Peter Ludlow, director of the Centre for European Policy Studies, describes package deal, whereby "hard core" members of the EMS (Germany, France, Benelux and possibly Denmark) agree to reduce or even eliminate the margins of fluctuation within the ERM. Decision-making on monetary policy could be more collective, with the door left open to other EC members. Lastly, the German authorities would agree to tighten fiscal policy to relieve pressure on

the Bundesbank, thus paving way for lower interest rates and economic recovery in Europe.

One flaw in this analysis is that EC ministers ruled out narrower fluctuation bands in the EMS in the run-up to the Maastricht treaty. The tidal wave of speculation in the money markets in recent weeks makes the room for currency manoeuvre more – not less – necessary when dealing with existing parities. One informed EC official notes that speculation is likely to increase

– not decrease – in the second stage of EMU, before controls lock into fixed exchange rates. "The testing will never stop," he says.

These make for strong technical arguments for accelerating moves toward EMU. The trick is to make the package politically saleable – not just to important southern states such as Italy who fear being left out, but also to Germany, where popular fears of abandoning the D-Mark appear to be increasing.

One suggestion is to create a European Central Bank on the lines of the Federal Reserve in the US. To guard against political interference, the "regional" heads of the central banks in France, Germany and Benelux would agree that all decisions on monetary policy would require unanimity in London.

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Economics Notebook

By Lionel Barber in Brussels

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the two airlines, both companies envelope Dan-Air aircraft flying under the Virgin name, with Mr Branson participating in a refinancing of Davies & Newman by its institutional shareholders.

The idea is that Dan-Air would benefit from Virgin's retail and marketing skills.

The airlines would remain operationally separate, although both see benefits from co-ordinating Dan-Air's short-haul European network with Virgin's transatlantic services.

Mr David James, chairman and company doctor to Davies & Newman, denied weekend press reports that a deal with Virgin would mean redundancies among the 2,350 staff of his Gatwick-based airline, saying such a link-up would probably increase demand for staff.

Although Dan-Air forecast pre-tax profits of £20m (\$34m) at the time of its £49.3m refinancing last October, the airline is now expected to incur a loss of £7m in 1992.

When Mr Branson made specific proposals on Thursday evening, Mr James suspended his programme of meeting institutions, until the negotiations with Virgin are completed. Mr Branson, who owns a majority of the private Virgin Atlantic, will take a stake in Davies & Newman only if institutional shareholders support the plan.

Although Dan-Air's scheduled services have been doing well recently, the charter side has suffered from uncertainty about the

future of the airline. Talks between Dan-Air and British Airways collapsed recently and Air France has also declined to get involved. However, BA may be concerned to see Dan-Air, which has six precious daily slots at Heathrow, link up with its arch-rival, Virgin.

Mr James said he was hopeful that there would be successful deals with Virgin within the next two weeks. "The chemistry is so good that it would be to the benefit of British aviation.

Maxwell businesses 'ready for sale'

By Andrew Jack in London

SALES of most of the remaining businesses controlled by the late Mr Robert Maxwell are moving towards final preparation, according to accountants working on different parts of the publisher's empire.

Plans for selling the principal companies in Maxwell Communication Corporation – including Macmillan and Official Airlines Guide in the USA – are to be submitted by accountants Price Waterhouse to the US and the UK courts next month.

Separately, discussions are well advanced for the sale of British International Helicopters, the remaining trading business in the network of private Maxwell companies being administered by accountants at Arthur Andersen.

Andersen expects to raise at least \$50m from selling BIH, along with a number of property interests and investments in Hungary and France. That will only leave the majority shareholding in Mirror Group Newspapers.

Mr Mark Homan, one of the administrators to Maxwell Communication Corporation at accountants Price Waterhouse, told the House of Commons social security select committee last week that the firm is "making substantial progress" on sales, in conjunction with its adviser JP Morgan, the US bank.

Administrators have been hampered by the highly unusual arrangement whereby MCC is controlled by Chapter 11 proceedings in the USA as well as administration under UK insolvency law.

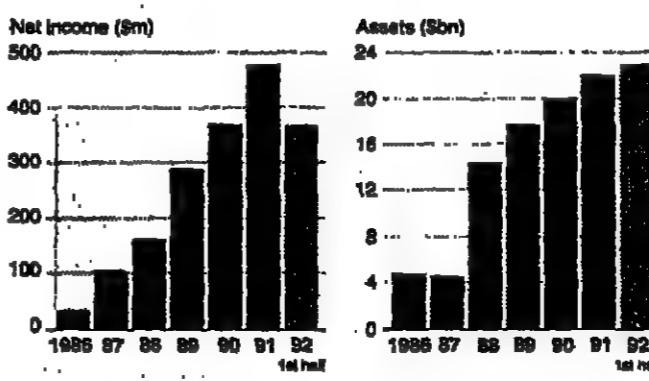
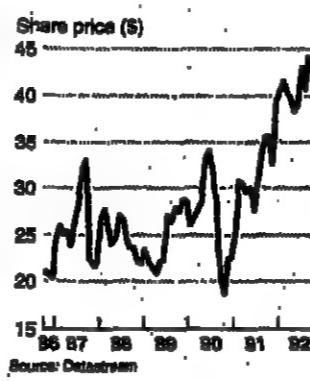
This has caused much of the more than £5m in legal bills incurred so far.

Another reason for the delay has been difficulties in negotiating the tax position of the companies.

Mr Homan has been reluctant to provide too much information on the expected price of realisations because of commercial sensitivity. He has also been concerned about creating a false market in the discounted trade of MCC debt. He believes up to \$250m of MCC debt had changed hands since the company went into administration.

But he said MCC's assets in the UK apart from claims from third parties were about £100m. The US assets were worth up to \$1bn, excluding receipts from the sale of Berlitz shares. Details, Page 26

Primerica



the talks because the price was too high. Although Mr Weill does not mention any names, industry observers suggest a natural fit for Smith Barney would be Prudential Securities, the broking arm of the insurance giant, or possibly one of several smaller, regional brokerages.

While acquisitions must obviously excite the dealmaker in Mr Weill, for now his energy is likely to remain focused on the task at hand – the restructuring of Primerica.

Acquisitions obviously excite the dealmaker in Mr Weill

merica Financial Services, and sorting out Travelers.

It took little more than two months for Mr Weill to agree to come to Travelers' aid. So "efficent" were the negotiations that they weathered the disruption of Hurricane Andrew, which this year will take a big bite out of US insurers' coffers, including up to \$225m from Travelers.

Travelers now has \$1.1bn to help it through the property slump and pay for a big restructuring. The Primerica deal has already done some good. The Moody's ratings agency has said it will review Travelers' Baal rating.

The holding cost Primerica \$18 a share, compared with Travelers' book value of \$40 a share, and by the end of last week Mr Weill was already sitting on a handy paper profit, with Travelers shares trading at \$33.

Hurricane Andrew may even have made the Travelers stake more attractive. Mr Weill believes the spate of recent natural disasters could herald the end of the "soft" property and casualty insurance underwriting cycle and push rates up across the industry.

Travelers certainly needed the help, and there is little sign of complicity about the task facing Mr Weill and Mr Budd.

Although it has already raised almost \$700m during the year through debt and equity sales, the insurer is struggling under the burden of billions of dollars in bad commercial property loans made during the 1980s. By the end of the second quarter \$62bn in loans, or almost half of Travelers' property book and more than 10 per cent of the group entire investment portfolio, was underperforming.

Billiton is to place "a stronger focus" on its mining operations while the trading and marketing business would underpin mining.

Billiton recently closed its smelters in the Netherlands and Ireland and has effectively put a "for sale" notice on most of its other downstream businesses. These include two in the UK: British Lead Mills and H J Enthoven, which between them account for about half the secondary lead production in the UK.

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Shell metals business to emphasise mining side

By Kenneth Gooding,
Mining Correspondent

The Royal Dutch/Shell oil and gas group is to change the direction of its loss-making Billiton metals and mining business said Mr Paul Everard, an executive director of Billiton International Metals.

Billiton, based in the Netherlands, suffered \$12m net losses last year which deepened to more than \$35m in the first half of 1992.

Billiton is to place "a stronger focus

COMPANIES AND FINANCE

Sphere raises \$4m and wins its independence

By Raymond Snoddy

SPHERE, the California video game company controlled by the late Robert Maxwell through a Lichtenstein charitable trust, has won its independence.

The fast-growing company that has produced games such as an F-16 flight simulator, has raised \$4m from new investors for additional marketing and development and buying out shares formerly held by Swico,

a charitable trust which was in effect its parent.

Earlier this year it emerged that Sphere, which trades under the name Spectrum Holobyte, appeared to be a private Maxwell company beyond the reach of Arthur Andersen, administrators to Mr Maxwell's personal interests.

The negotiations over the future of Sphere have involved Arthur Andersen. As a result in return for the Swico shares \$2.3m was paid into an escrow

account and a further provision of \$4m in preferred shares set aside to cover any further unexpected liabilities.

Before the re-financing package was put together all Maxwell appointees to the company were removed.

Mr Gilman Louis, president and chief executive of Spectrum Holobyte, said: "This financing positions the company to work with our new partners in bringing products and technologies to the industry."

MCC accountants on final chapter

By Andrew Jack

ACCOUNTANTS are nearing a final chapter in their disposal programme of the assets in the Maxwell business network, more than ten months after they were first appointed.

Price Waterhouse has been handling the 400 companies - most of them non-trading - within Maxwell Communications Corporation. Realisations so far have totalled £59m, including companies such as Panini, Nimbus, Macdonald, MBCG and MCPG. Professional fees have totalled £15m to date.

There have been no MCC realisations so far in the US, where the majority of the assets are. Mr Mark Homan,

one of the joint administrators, has said he wanted to avoid a fire sale; the businesses are also self-sufficient in cashflow and ahead of projections.

Accountants at Arthur Andersen are administrators to the private Maxwell business empire. This also includes about 400 companies, the vast majority being non-trading.

There were 56 trading businesses identified, of which 52 have been sold, generating £110m. These include the European newspaper, AGB and some other market research companies. Income has been offset by £2m in trading losses and costs, and estimated professional bills of £1m.

Two businesses have been

closed, leaving one - British International Helicopters - to be sold, along with property assets and overseas investments, which should in total realise at least another £50m.

The Office of Fair Trading has cleared the way for bids from four of the six serious contenders.

In addition, the firm still has to determine the point at which to sell the majority shareholding in Mirror Group Newspapers, but appears to be no hurry to do so.

Mr John Talbot, head of insolvency at Andersen, said he is getting to the point of liquidating a number of the companies now held in administration.

The placing by Allied Provincial Securities, represents 20 per cent of Tepnel's enlarged share capital.

Tepnel for USM with £27.5m tag

By Peter Pearce

TEPNEL Diagnostics will join the USM on Wednesday through a placing of 4.58m ordinary shares at 120p to raise a net £5.16m. At that price it is valued at £27.5m.

A biotechnology company based at the University of Manchester Institute of Science and Technology, Tepnel has developed diagnostic testing systems there which are designed to "meet growing consumer and legislative demands" for detecting the presence of residual antibiotic or other contamination in foods and of viral and bacterial conditions in blood.

Mr Harold Moyles, chairman and chief executive, said products were now at the point of commercial exploitation.

In food diagnostics, it developed the PARAS (Food Antibiotic Residue Analysis System) test which requires one test for 16 answers, rather than the current 16. First target to be addressed is the milk industry.

In medical diagnostics, a series of probes screen the particular DNA patterns of specific diseases. Here the National Blood Transfusion Service is the initial target.

The placing by Allied Provincial Securities, represents 20 per cent of Tepnel's enlarged share capital.

Assurance for investors and creditors

Andrew Jack on auditors' involvement in half-yearly statements

Casual readers of at least two sets of half-year results released this month might easily have thought they had been given a sneak preview of the full-year figures six months too early.

The error would not have been caused by the size of the figures themselves, but by the fact that there was so much financial information available.

A growing number of companies are providing more detailed half-yearly information, with divisional or geographical breakdowns of profit or information on their balance sheet.

But Guardian Royal Exchange, the insurance company, and Guinness, the drinks group, have gone several steps further. Their interim reports resemble more closely the financial statements in an annual report, even to the extent of including a statement from Price Waterhouse, auditor to both companies.

Their figures for the first half of 1992 are presented with a profit and loss account, geographical breakdown and also a full balance sheet.

In addition, both have a full cash flow statement in accordance with the new Financial Reporting Standard.

The figures presented in either case are unaudited. But they are accompanied by a letter from Price Waterhouse to

the directors of the company, which says the firm has "reviewed" the figures.

The PW report says the review was not conducted in accordance with auditing standards, and did not involve visiting operating locations or verifying assets and liabilities.

It principally meant understanding the process involved in preparing the financial information, applying analytical procedures to the data, and quizzing the management.

It concludes: "In our opinion, the half-yearly financial information has been prepared with due care and using accounting policies consistent with those adopted ... in the statutory financial statements for the year ended December 31 1991."

GRG states that it provided greater interim financial information in line with the recommendations of the Cadbury committee on corporate governance. "We had done the work internally, and we were quite happy to take up the Cadbury suggestion," says Mr James Morley, finance director.

The statements were easy to assemble because GRG has long asked its auditor to conduct an interim review, discussing factors such as the financial information collected, technical issues and accounting policies adopted.

"We believe that having a half-year review makes a lot of sense," says Mr

Morley. "You can get into very esoteric arguments about whether having a review saves costs at the year-end audit. But the costs are certainly justified by the benefits."

The same message comes from Mr Andrew Allner, financial controller at Guinness. "We have taken a closer interest in corporate governance and it came up in discussions with our auditors," he says.

It is no coincidence that both companies were audited by PW. Mr Graham Ward, a partner in the firm has been among those in the profession actively supporting auditor scrutiny of both interim and preliminary announcements.

Mr Morley supports the idea of the PW comment. "It gives shareholders some anchors to what's been done. It is quite an important statement."

Mr Allner adds: "It gives the shareholders the feeling that the numbers have been reviewed by someone independent and objective. We think it's a good thing and would like to think other companies would do the same."

Mr Quentin Rubenstein, the lead engagement partner at PW for GRG, says: "It seemed a logical extension that because we're doing the review, we should say something about it. We put our pen where our work is."

He says the firm took considerable time deciding on the

wording since there was no precedent and no guidelines. That same wording was mirrored in for Guinness.

He stresses that the PW comment is addressed to the directors, and offers none of the safeguards of the audit report in the annual accounts.

However, Mr Ward adds:

"There may not be a legal obligation, but once our name is associated with the accounts, there is an implication that a degree of care has been taken. There is an assurance value."

At a time when both gearing and short-term cashflow are among the chief concerns of investors and creditors, it comes as no surprise that the extra balance sheet and cash flow information has been widely welcomed.

However, Mr Morley says that "interestingly" he has heard no comment on the auditor's statement. Perhaps that reflects uncertainty over what significance it really has. After all, without any mandatory requirement, it is unlikely that companies disagreeing with their auditors will publish it.

It also remains to be seen whether, if other companies follow the lead of GRG and Guinness, a comment without the legal obligations of a full audit will provide any reasonable guarantee that the interim accounts really represent a "true and fair" view of the financial position.

NEWS DIGEST

William Jacks back in black

FURTHER REDUCTIONS in operating costs and the benefits of the convertible preference rights issue a year ago enabled William Jacks, the motor dealer, to make a small profit in the half year ended July 31 1992.

It made a pre-tax profit of £1.000, compared with losses of £60,000 for the corresponding half year and with £860,000 for the full year.

The overall car market had not yet shown signs of real recovery, but the corporate sec-

tor had been "quite resilient" and certain franchises were benefiting from excellent new models, the company said.

First half turnover was held at £21.2m. Operating surplus rose from £136,000 to £43,000, and interest charges were cut to £42,000 (£70,000). Losses per share, after preference dividends, were 9.6p (5.6p).

F&C Pacific net asset value at 190.5p

Net assets per share at the Foreign & Colonial Pacific Investment Trust fell from 193.3p to 190.5p basic over the 12 months to July 31. Allowing for the exercise of warrants the drop was from 218.6p to 181.8p.

Net revenue for the half year

ended July slumped to £333,000, against £1.2m, for earnings per share of 0.5p (1.34p). The interim dividend is being maintained at 0.75p.

NHL merges finance and treasury sides

National Home Loans, the mortgage lender and consumer finance group, is to merge its treasury and finance operations under the control of Mr Nigel Terrington.

The merger reflects the reduced size of the company. Mr Terrington's appointment follows the resignation of Mr Tony Moir, a leading figure in the company since its establishment in 1986, as finance director.

Net assets per share at the Foreign & Colonial Pacific Investment Trust fell from 193.3p to 190.5p basic over the 12 months to July 31. Allowing for the exercise of warrants the drop was from 218.6p to 181.8p.

Net revenue for the half year

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Sir Robert Jones barred from trading RJI shares

By Terry Hall in Wellington

THE New Zealand high court has barred Sir Robert Jones, founder and former chairman of property group Robt. Jones Investments (RJI), from trading shares in the company.

This is the first time such an action has occurred in New Zealand, and follows an application by the country's securities commission.

The court prohibited RJI from registering transfers of shares held by Sir Robert or private companies he controls. Sir Robert recently said he held 13.82 per cent in the company.

The interim order, follows an earlier finding by the New Zealand Stock Exchange's market surveillance panel that the company failed to inform the market about share dealings during 1990 involving RJI, as well as its employee unit trust and Sir Robert's private interests.

Sir Robert said he was "delighted" the commission had acted. He accused the stock exchange of mounting a "kangaroo court" against him.

The high court injunction is the latest in a series of legal actions against RJI and Sir Robert who on September 18 resigned as chairman of the company he founded 10 years ago. It is now one of the biggest property investors in Australia and New Zealand with a portfolio of buildings worth NZ\$1.05bn (US\$68m).

• Fy, Richwhite shareholders have voted overwhelmingly to accept the National Australia Bank's bid for their company's 26 per cent stake in the Bank of New Zealand.

NAB is offering 80 cents a share and 85 cents for each preference share. It is expected to confirm the offer this week.

Power Financial sells HD Intl

POWER Financial, the financial services arm of the Desmarais family's Power Corp of Canada, is selling its 60 per cent interest in HD International, a London investment management company, to Credit Suisse Asset Management for an undisclosed sum, writes Robert Gibbons in Montreal.

PFC said it was withdrawing from European financial services operations, where it does not have a dominant market share.

Italian insurer prepares privatisation policy

Lorenzo Pallesi, chairman of Ina, tells Haig Simonian about plans for the state sell-off of his group

Topping virtually every list of Italian privatisation candidates is Istituto Nazionale delle Assicurazioni (Ina), one of the country's biggest and best known insurance companies.

Ina's main business is life insurance, in which it ranks second to Generali, Italy's biggest insurer, on a group basis, and counts as the largest operator as an individual company.

Through Assitalia, the quoted subsidiary, it also offers non-life policies, while it owns 20.25 per cent of Banca Nazionale del Lavoro (Bnl), the big treasury-controlled bank, and 9.27 per cent of Istituto Mobiliare Italiano (Imi), the Rome-based financial services group.

Total premiums amounted to Ls.400bn last year, with Ls.200bn stemming from directly written life business and a similar amount from Assitalia, while net profits were Ls.19.9bn.

Misunderstandings about premiums and earnings indicate how much preparatory work is necessary before Ina can sell its shares to the public. About Ls.900bn of its total premiums stem from cessions from other life insurance companies, under a complex system dating back to Ina's foundation in 1912. Although conceived as a state monopoly, similar to those in tobacco and electricity generation, the idea never got off the ground.

After 1918, when big Trieste-based insurers such as Generali and Riunione d'Adriatica di Sicurtà came under Italian sovereignty, a looser alternative was chosen.

In 1922, Mussolini imposed a sliding scale of quotas, obliging life insurers to cede part of their business to Ina. From 1940 per cent of all premiums in the Italian market to new entrants, put off by the fact that they

would only receive premiums on 60 per cent of their business, while established rivals might already be down to the 10 per cent quota.

"It was cosy for everyone. The established companies kept out rivals, while Ina enjoyed guaranteed growth at market rates thanks to an automatic stream of business".

Changing the requirement to cede premiums to Ina will be one of the steps needed before privatisation. Mr Pallesi hopes Italian insurers will follow other European markets and opt for self-regulation.

Ina's premiums rose by 13.4 per cent to Ls.256bn, net of exchange rate changes, while fully consolidated aggregate premiums rose by 15.3 per cent to Ls.11.194bn.

The company forecast that underwriting income this year should improve from the difficulties of 1991. However, it warned that earnings, while likely to be affected by the economic problems facing many clients and volatile financial markets, would remain flat from extraordinary gains, as in 1991.

stages to a permanent floor of 10 per cent after 30 years.

That system underscored Italian life insurance until just six years ago, when reforms were passed in line with planned European Community legislation, with compulsory transfers being phased out by 1994.

Mr Lorenzo Pallesi, Ina's chairman, explains: "The aim was to guarantee market stability and avoid damage to policy-holders if a company collapsed. Although seeming unfair, the system was very attractive for all concerned."

The sliding scale closed the Italian market to new entrants, put off by the fact that they

would only receive premiums on 60 per cent of their business, while established rivals might already be down to the 10 per cent quota.

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Lorenzo Pallesi: aimed to guarantee market stability

refrain from ploughing money into special reserves.

The second factor affecting profits is Mr Pallesi's policy, introduced in early 1990, of redistributing earnings to policy-holders. Last year, the company credited Ls.135bn into policyholders' accounts, after Ls.15bn in 1990.

So far, it is unique among Italian life insurers. Mr Pallesi explains the strategy in marketing terms. "Policyholders in the UK have many more rights than in Italy. The market there is much more transparent. I believe this will happen in Italy too, and we wanted to be the first."

Taken before redistribution and transfers to reserves, Ina's earnings have been consistently high. Last year, it made Ls.460bn, a figure it hopes to repeat in 1993.

Ina's transformation into a joint stock company last month shows changes are

already on the way. With the new Italian government scrapping tax, sprung on the industry last year. Rather than amortising the amount over three years, as permitted under law, Ina took the entire payment on its 1991 accounts.

Other factors explain the relatively modest net earnings of previous years. "The state never saw Ina as a source of income," says Mr Pallesi. "As a special form of state-owned company, it never had annual general meetings or even shareholders. And it never paid dividends."

As there was no need to distribute earnings largely derived from tax-exempt government bonds - Ina traditionally shifted a large part of profits into reserves to minimise its tax bill. "Our solvency margin is between 4% and 5% times that required by law," he says.

Only when facing the property tax in 1991 did the group

not if to split, but how," says Mr Pallesi. Necessary legal changes will take between three and four months, he thinks. And a flotation seems unlikely before certified 1992 accounts are ready by next May or June. With the long summer break ahead, September 1993 looks the first possible date for a stock market debut.

How much is Ina worth? Ina's total assets amounted to almost Ls.200bn last year. Its holdings include a sizeable property portfolio listed at historic prices. "Some assets are at one third or a quarter of their market values," Mr Pallesi claims.

Ina's earnings are also deceptive. Superficially, last year's figure seems paltry for a company of its size in a business where profitability is normally high for big, mature players. However, the final result masks a variety of factors. Foremost is the Ls.33bn paid in the special advance property tax, sprung on the industry last year. Rather than amortising the amount over three years, as permitted under law, Ina took the entire payment on its 1991 accounts.

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Only when facing the property tax in 1991 did the group

Turin bank rises 22.8% in first six months

By Haig Simonian

ISTITUTO Bancario San Paolo di Torino, the big Italian bank which floated part of its shares this year, raised gross operating profits before provisions and depreciation by 22.8 per cent to Ls.710bn in the first half of this year. The trend in earnings, which were ahead of budget, had continued into July and August, it said.

Loans rose by 11.5 per cent to Ls.2,500bn, with the rate of growth partly held back by the bank on credit grounds. Deposits rose by almost 14 per cent to Ls.104,500bn, with the biggest increase coming from the bank's domestic clients.

• Stet, the stock market listed holding company for Italy's state-owned telecommunications activities, reported virtually static group pre-tax profits of Ls.566bn in the first half to June, against Ls.516bn a year earlier.

The result came in spite of a 12.5 per cent rise in turnover to Ls.12,526bn. Mr Blagio Agnes, Stet's chairman, judged the results satisfactory, but warned of growing uncertainties owing to the troubled state of the Italian economy.

Stet made no profits forecast for the full year, but said that earnings should be in line with the net Ls.1,130bn made in 1991. However, profits would be affected by the additional taxes and special measures planned under the government's severe 1993 budget.

The group predicted an 11 per cent rise in sales for the year and maintained investment spending, which amounted to Ls.622bn in the first half.

Dow move linking prices to DM 'sustains margins'

By Andrew Jack

DOW, the US chemical company which last week said it was formally linking its prices in Europe to the D-Mark, says customers will still be invited and able to pay in their local currencies. Prices will be converted into the local currency at the D-Mark rate on the day orders are received or regular orders placed. The action will sustain margins during a period of exchange rate instability.

Mr Fernand Kaufmann, sales and commercial vice-president of Dow Europe, said: "Now

with the ERM uncertainty, we have to adjust these prices to restore the value of the D-Mark. We really need the D-Mark equivalent. We cannot live off the devalued rate."

Mr Michel Demare, assistant treasurer, said that unless Dow formalised its D-Mark pricing policy, it would be sacrificing about 5 per cent on one-third of its revenues. A substantial portion of its production costs are in D-Marks.

Four-fifths of the European company's trade is in ERM countries, with the remainder in Switzerland, Scandinavia, the Middle East and Africa.

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DERIVATIVES

Stiff test for the banks' risk management systems

THE past fortnight has provided a stiff test for the skills of banks active in the swaps and other derivatives markets.

Has the huge cost of systems in recent years – built both to manage risk and to make it possible to price complex financial instruments – been money well spent? The answer is: "Not entirely".

The crisis in the European exchange rate mechanism has revealed some of the weaknesses in banks' risk management systems for two reasons.

First, computer models developed from historical data have in many cases been subjected to the most extreme market conditions they have yet had to face. What looks fine on the laboratory bench does not always work so well in practice.

"It was almost impossible to keep track with where you were," said an executive at one bank in London. "Any arbitrage opportunity, where you are talking about two or more instruments, became very difficult."

The speed of events was one reason for this. Valuing derivatives portfolios takes considerable computing power. "The systems take a long

time to crank out the answers, and when they come, the market's changed," said this executive.

The scale of the volatility also made it difficult to keep up with events. Some banks discovered that the parameters built into their models simply were not broad enough to cope with events. "Any model can cope with 15 per cent interest rates. What no models can cope with is 1,000 per cent rates," said an executive at another bank.

The foreign exchange markets, which saw the most active trading, are immune from most of these problems. Dealers have less need for real-time information, since they do not face the same difficulty in marking their positions to market.

"In the heat of the moment you don't rely on the system to keep your position – you keep your own," said a risk management executive at National Westminster. It isn't possible to trade in derivative markets in the same way.

The second weakness in risk management that has been exposed in recent days has been lack of liquidity in some financial markets. Managing risk is only possible if there

are markets and instruments available in which those risks can effectively be laid off.

The sterling swap market, which was left high and dry on the day that the currency left the ERM as the money markets dried up. The lack of a liquid money market made it impossible to price a swap, or to value a sterling swap portfolio, making hedging equally impossible. It was a case of waiting for normal market conditions to return, and then hoping that your bank came out as one of the winners rather than one of the losers.

It was highly timely that the International Swap Dealers Association should have held a conference in London last Friday on risk management. Mr Michael May, head of derivatives marketing at Westpac, was one of several speakers to point to liquidity as an important concern: "Is anyone brave enough to say that the Ecu swap market will still be here in five years time?" The experience of recent days has given senior managers in some banks – and banking regulators – a taste of what extreme market conditions can do to financial institutions' risk

controls. The outcome was not catastrophic, but that may provide scant consolation if allegedly fool-proof systems failed to cope. It is all reminiscent of the 1987 stock market crash. Then, so-called "portfolio insurance" was meant to have eliminated the market risk from holding securities. In practice, such promises of risk-free investing proved unfounded.

One of the main things to come under scrutiny will be the volatility assumptions built into risk management systems for derivatives. These are built on historical data, which is used to project how instruments will trade within most circumstances. They do not pretend to cover all market conditions.

Most work on a "confidence level" of about 95 per cent. That is, they are based on the assumption that a particular instrument or market has traded within a certain range at least 95 per cent of the time in the past, and so can be expected to do so in the future.

The trouble is, "worst-case" situations can be devastating when they occur. Referring to the high confidence level used at Bankers Trust,

Ms Marion Roberson, head of product risk at Bankers Trust in New York, said at the Isda conference: "In practice, you almost never reach this level – except when you grossly exceed it."

How many senior bankers realise this – and are they happy to live with the consequences, given the enormous volatility in financial markets demonstrated recently?

Another risk management expert said: "Senior management have to accept that these are trading markets, and that not everything can trade within a 95 per cent confidence level." It may be, though, that the experts have failed to get this message across.

There is certainly a lot of doing that needs to be done in the coming weeks. As Mr John McCormick, head of Bank of America's financial engineering and risk management group in London, said: "Senior management will be asking, in the light of recent events, what we're doing here." He can be sure that Bank of America certainly will not be alone.

Richard Waters

**Anthony Harris
A German strategy for Britain**

THE more that he talked of his honour, the faster we counted the spoons. Which applies, rather obviously, to a British chancellor who talks of rigor the day after

he cuts interest rates. This could only too obviously be where Mr Edward Heath came in. That is the future the markets are beginning to discount, and no reader needs advice on how to hedge. Stay short of sterling.

But suppose that it is different this time. Suppose that Mr Major, awakening from his fantasy of European leadership, and Mr Lamont, free from playing follow-my-leader, have learned from their experience. What reflections would guide a rational man after such a shock?

"We're on our own," might sum it up; but not in the snug John Bull sense. Mr Lamont so successfully employed to rally his backbenchers. On our own in the sense that Britain has to establish its street credibility before it can join the fast-track group in Europe; not as a result of joining before we are ready. And on their own in the sense that they cannot lean on the advisers who got them into this mess. They must make their own policy from the ground up.

This is very difficult for men so comparatively young. They did not experience the significant past; they must read about it in books, and they do not have the time. (So if you find the potted version which follows convincing, clip it up and send it to them.)

The strategic aim need not be changed: Mr Major wants to out-German the Germans. He must hold on, though, to the new understanding of cause and effect which emerged in the economic debate. You do not get strength by suppressing inflation; you get a strong currency from having a strong economy, and low inflation follows. The re-emergence of this truth could be worth all the turmoil and humiliation, if we can hold on to it.

The two leaders of fast-track Europe ended the war devastated; both now have quite impressive economies (though the German record has been gravely blotted

since re-unification), but they chose opposite routes to get there.

The French approach lay through a strong industrial policy – rather the Labour line. This produced much technological excitement, but a long string of disappointments and devaluations. In 1983, they moved over to the German track, and have been painfully converging ever since.

The German approach, as much forced on them by isolation as thought through, relied on the market. Inflation had left their currency as devastated as their cities, and much undervalued overseas after it was reformed.

The only way to get rich was to earn foreign currency, legitimately or otherwise; and so began more than three decades of export-led growth. The mark rose with the trade surplus. This is also the strategy followed, sometimes accidentally, by Japan, Korea, and currently by China and most recently by Poland (with dawning success), and possibly Russia.

Britain now has an opportunity to follow these examples. The physical economy is not devastated, simply under-sized; the country still needs a structural transformation. The psychic economy happily has been laid flat: union militancy and resistance to change went some years ago, and now we are drying out from our long addiction to borrowing. For Britain, as for the US, net exports are the only likely source of long-term dynamism.

The task is to revive the economy without reviving bad habits;

in other words, to keep a highly competitive exchange rate while containing inflation, especially credit-led inflation. This approach might well appeal to the schoolmaster in Mr John Major – "if it isn't hurting, it isn't working". His anti-inflationary convictions are real; even, according to his officials, obsessive. Given time, the market could do the rest; and Mr Major has time. There are two problems. The re-emergence of this truth could be worth all the turmoil and humiliation, if we can hold on to it.

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WORLD STOCK MARKETS

AUSTRALIA

1982

High Low September 25 Price

Sgd

2,601 1,550 Alcoa Australia 1,700

570 324 Caltex Australia Pl.

3,025 2,300 EA General ... 2,815

706 651 EVN ... 622

1,659 1,550 Finsmechaniker ... 1,700

1,074 530 Oerfl ... 761

1,550 1,100 Pelemer Zement ... 1,180

1,889 980 Ralstec Holdings ... 470

308 125 Saint Gobain ... 181

2,597 2,000 Sanwa ... 2,000

4,432 2,541 Wimberley ... 3,250

1,308 1,200 Z-Landerbank 1,000

FRANCE (continued)

1982

High Low September 25 Price

Fr

1,209 900 Caspian ... 1,150

800 500 Cetim ... 500

1,298 885 Chateurs ... 1,256

432 218 Corsefina ... 222

1,250 1,050 Credit Foncier ... 1,050

701 566 Credit Int'l ... 550

1,250 1,050 Credit Lyonnais ... 1,050

677 500 Crédit Maritime ... 500

1,250 1,050 Crédit Lyonnais ... 1,050

1,250 1,050 Crédit Maritime ... 1,05

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FT MANAGED FUNDS SERVICE

- Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

هذا حتى الركيل

NYSE COMPOSITE PRICES

High Low Stock	Div. % E 1988		High Low Close		Y2' 77 78 79		Closes Prev.		1982		High Low Stock		Div. % E 1988		High Low Close	
Continued from previous page																
20 46% ScheringPl 1.68 2.7 171000 52% 55 57% -2% 20% 10 Teradyne 17 331 14% 13% 13% -1% 19% 12% Van Dorn 0.80 3.4 77 338 17% 17% 17% 17% 20% 45% Schrberger 1.20 1.8 182876 60% 65% 63% -1% 18% 8% Textron 0.06 0.6 3 30 11 10% 10% 10% 10% 37% 15% Seaboard(C) 0.24 1.3 82132 18% 52% 51% -1% 4% 4% Texas Inds 11 361 5 4% 4% 4% 4% 10% 45% Schmitz 47 107 50% 51% 51% +2% 8% 3% Tesoro Pet 1.147 132 50% 50% 50% -1% 12% 7% VanKampen 1.02 11.2 20% 8% 8% 8% 8% 29% 15% Schneiders 0.16 0.6 391456 27% 27% 27% +1% 68% 58% Texaco 3.20 6.0 771455 64 63 62% -1% 12% 7% VanKampen 0.03 7.2 117 11% 11% 11% 11% 10% 7% Schmitt x 0.10 1.10 100 52% 51% 51% -1% 54% 52% Texaco C 3.75 7.1 8 52% 53 53 53% -1% 48% 34% ScottPaper 0.80 2.1 19 3872 38% 32% 32% -1% 25% 19% Texas Ind 0.20 1.0 443 8 20% 20% 20% 20% 27% 12% SoudalNAP 0.22 1.6 75 14% 14% 14% -1% 45% 20 Texas Inst 0.72 1.6 234452 44% 43% 43% 43% 9% 5% SouderMet 0.30 4.4 100011 41% 41 41% -1% 45% 17 Texas Pac 0.40 2.2 2334 12 17% 17% 17% 17% 24 15% Sovra Coms 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MONDAY INTERVIEW

Monetarist with a mission

Patrick Minford, the Liverpool University economist, talks to Peter Marsh

Mr Norman Lamont has not had much time for day dreams recently. But in any moments of reflection during the sterling crisis and its aftermath, swimming before the glazed eyes of the UK chancellor may well have appeared the craggy, combative features of Professor Patrick Minford.

If Mr Lamont has appeared to be playing a Macbeth-like role, fighting a losing battle against the powerful forces pulling the pound down, then Prof Minford has also played an important part, as the leader of the witches haunting the Scottish regent with warnings of toil and trouble ahead.

For the past two years, the vociferous Liverpool University economist has been stirring the cauldron of ideas, cooking up a storm of rebukes and irreverent comments which have conspired to irritate the UK chancellor.

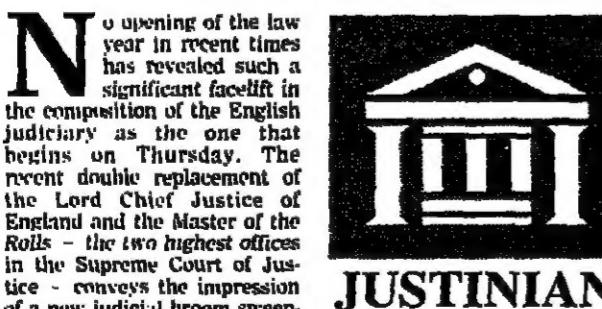
Prof Minford was one of the first UK economists to warn of a long recession. And as the best-known member of the so-called Liverpool Six group of monetarist economists, he has not been shy about repeating his view that membership of the European Monetary System's exchange rate mechanism split disaster for Britain.

Long disregarded by the mainstream in the Conservative party as a heretic, Prof Minford is closely identified with the free-market views of Lady Thatcher, the former prime minister, whom he served as an informal economic adviser during the early 1980s. He is dismissive of many of the new generation of Tory leaders, who he reckons have gone soft on public spending and abandoned sound methods of running the economy based on monetary targeting.

But with Mr Lamont having been forced to suspend the UK's ERM membership, removing the central plank of his economic strategy, the frequently controversial views of the 48-year-old professor have been given added weight.

Sitting in his cluttered office in Liverpool, next to two scruffy suitcases stuffed with economics pamphlets, the professor seems a long way from the hurly-burly of the currency markets and the political maelstrom that has followed the suspension of the pound from the ERM.

Revival of trust in the law



JUSTINIAN

Denning asserted the need for judges to be creative, to shape the law. For him, the doctrine of precedent was an obstacle that should be brushed aside if he believed the previous case law stood in the way of individual or social justice.

The arrival this year of four new Law Lords - enhancing the calibre and liberal disposition of the final court of appeal - has made necessary a number of replacements in and additions to the Court of Appeal. This reflects a distinct break with the past, improving the prospects of sensible and sustained legal reforms, and raising hopes that the esteem in which the public has hitherto held its senior judges will be restored.

The postwar period of civil jurisdiction was dominated in the public's mind by Lord Denning, now 83. Appointed a High Court Judge in 1944 and promoted to the Court of Appeal in 1948, he became a Law Lord in 1957. He returned to the Court of Appeal in 1962 as Master of the Rolls, where he dominated the court scene for the next 20 years.

It was an idiosyncratic domination, reflected in his large output of judgments (he never allowed either of the two appellate judges to deliver the first judgment of the court). Lord

Only the House of Lords in

the 1960s and 1970s, under the leadership of the greatest of our postwar judges, Lord Reid, kept English law on the smooth path of legal development. Public law owes much more to the creativity of Lord Reid than to the variable decisions emanating from Lord Denning. The mantle of Lord Reid now falls appropriately on the recently reconstructed House of Lords.

Following Lord Denning, Lord Donaldson's decade at the helm of civil justice has been quietly remarkable. The parsimonious administration of the Court of Appeal's workload during Lord Denning's period has been largely rectified. The Court has been transformed from a one-judge band with two judicial bookends, to a corporate body in which the Master of the Rolls has led a team of 27 Lord Justices contributing to more stable, if unexciting, jurisprudence.

Lord Donaldson, who formally retires on Wednesday, admits that he would have liked to have handed over to his successor, Lord Justice Bingham, in a titfer state. But he recognises that necessary reforms must be seen through by a new Master of the Rolls. He himself would have had to retire in the middle of such reforms. Lord Justice Bingham's appointment brings to the office a jurist of the highest quality, something that has to some extent been missing from civil justice.

The criminal appellate court has had a battering in recent years, more the result of fundamental defects in the system than in its executives. Criminal appeals immediately after the war occupied little more

Louis Blom-Cooper QC

I like to rock the boat'

one would expend by a mere 0.1 per cent during that year. That may not have been pessimistic enough. The latest forecasts, outlined last month in a Treasury compilation of private-sector projections, suggest the economy will shrink by about 0.6 per cent this year after a 2.4 per cent drop last year. But the professor was widely considered at the time as a doomsayer.

Indeed last summer, Mr Lamont took the opportunity to tell

PERSONAL FILE

1943 Born, Shrewsbury. Educated at Winchester College, Balliol and London School of Economics.
1968 Economic assistant, Ministry of Overseas Development, London
1967 Economist, Ministry of Finance, Malawi.
1970 Economist, Courtaulds.
1971 Joined Treasury, initially as economist and then as member of Washington delegation.
1974 Visiting fellow, Manchester University.
1975 Editor of National Institute of Economic and Social Research quarterly review.
1976 Professor of applied economics at Liverpool University.

the Liverpool academic so to his face, during a frosty confrontation with Prof Minford in the chancellor's office at the Treasury.

That meeting was one of the few occasions in recent years when Prof Minford has had high-level discussions inside the Treasury - an organisation for which he worked for three years in the early 1970s and for which he now has immense scorn for "making a complete cobblers" of the UK economy since the late 1980s. Yet his real battle is not just

with Treasury mandarins, whom he says are too remote from the outside world and are unnecessarily secretive, but the whole of what he deems Britain's intellectual establishment. By this Prof Minford means people disposed to "consensus building" and government intervention.

He says he has in mind people such as Ms Sarah Hogg (head of the Downing Street policy unit), Mr Howard Davies (director general of the Confederation of British Industry) and Mr Michael Hesseline (the president of the Board of Trade).

How did Prof Minford come to dislike the establishment so much? He had a comfortable background (his father was a diplomat and the young Minford went to Winchelsea College and then Balliol College, Oxford). Perhaps the 13-year-old Minford's school speech during the 1956 Suez crisis, in which he argued, against the conventional line of the time, that British military intervention was unjustified. "I was destined to be part of the establishment," he says. "Things just didn't turn out this way."

A big factor tipping him away from conventional thinking was his 1970s research in economics. The research was conducted at the Treasury (which he eventually left because he "got fed up with sitting on committees rather than doing research") and then at a series of academic institutes leading up to Liverpool, where he has been since 1976. His studies led Prof Minford to propose his own brand of economic theory, based on "rational expectations". That boils down to saying that everyone involved in economic activity - be they currency dealers, companies or consumers - makes intelligent assumptions on the basis of available information about how factors such as inflation will change in the future, rather than slavishly following trends that are guided simply by what happened in the past.

Prof Minford combined this theory with firm views on monitoring the money supply as a way of controlling inflation. In contrast to the then-Keynesian orthodoxy of using fiscal policy to manage demand. Both ideas fitted in with the market-based thinking of Tory leaders including Mrs Thatcher, whom he first got to know at a dinner in 1978, a year before she took over as prime minister.

In the aftermath of Mr Lamont's humiliating climb-down over the ERM, he has received no phone calls from the Treasury asking for advice. The mere suggestion seems so incongruous to the Minford mind that it makes him shout with laughter. "I am not really individualistic in my way of doing things. I like to rock the boat."

Foot-dragging on IDA is part of a broader retreat from a postwar consensus that rich countries had duty to help the poor. Aid flows have stagnated for a decade despite substantial growth of real output. Only five of the 20 richest countries have achieved the United Nations target of development assistance equivalent to 0.7 per cent of gross domestic product. The ratios in the US and Britain are far below target, at about 0.2-0.3 per cent of GDP. In the richest 20 countries military spending is about 11 times greater than foreign aid.

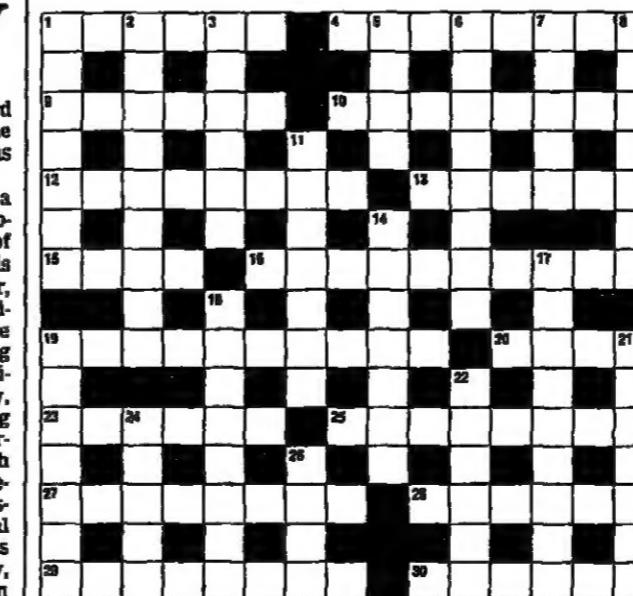
The retrenchment partly reflects severe budgetary strains in developed countries. But the origins run far deeper.

The only reliable way is to impose tougher forms of conditionality; aid has to be tied more directly to domestic reforms by recipients, including for example the shift of resources from military to social budgets. Such reforms may help convince sceptics that aid will not be wasted, but with the post-cold war world being rebuilt on market principles, the going is likely to be tough.

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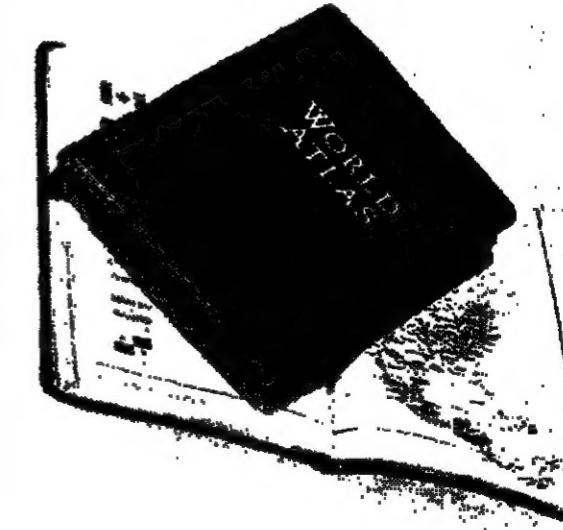
ACROSS

- 1 A head with totally unsatisfactory delivery (2,4)
- 4 Way to serve potatoes. Just stuffed with game (8)
- 5 Song and dance announcement (6)
- 10 Student's ill-gotten gain (8)
- 12 Pat his arm in error (8)
- 13 One can't do more than this (6)
- 15 Marxist lark perhaps (4)
- 16 A prison-camp child growing up (10)
- 19 To lead on is wrong, causing great distress (10)
- 20 As one's written repeatedly, she was revered (4)
- 23 Unusual statue, showing ingenuity (8)
- 25 Branch of mathematics that may appear grey to me (8)
- 27 Branch is not for fire (3,5)
- 28 Food in hand (6)
- 29 Said to be celebrated (8)
- 30 Run out of clothes (6)

DOWN

- 1 Club which may improve the flow of writing (7)
- 2 Game bird is all ruffed (9)
- 3 Dislike having to change a hotel (6)
- 5 A drug addict, perhaps, makes sure (4)
- 6 What was left of woman's sex appeal years after (8)
- 7 Prepared to fight (3-2)
- 8 Give claim to name (7)
- 11 Such a noted work can go on so long (7)
- 14 We do turn out after all - it's not forbidden (7)
- 17 Never satisfied, Titania's changed direction (9)
- 18 Artisan whose work caused feathers to fly (8)
- 19 Game in which Diana and Jack have nothing on, look! (7)
- 21 A heavenly spire? (7)
- 22 Great influence of one politician on some legislation (8)
- 24 Stiff resolution shown in disputes (5)
- 26 Child has a point to convey (4)

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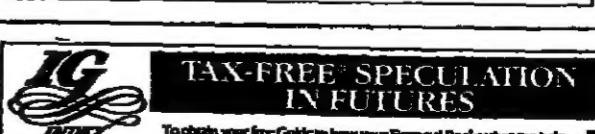
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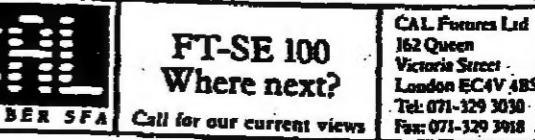
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The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 10.